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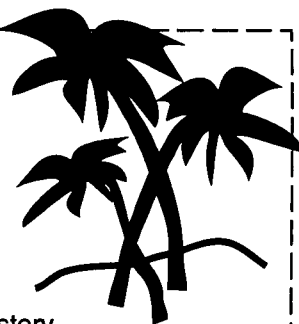
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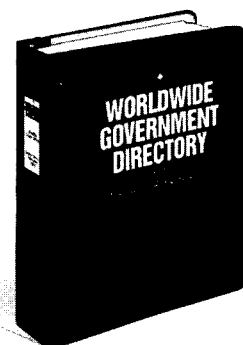
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Poverty, Politics, and Segregation



■ Recent discussion on race, class, and exclusion in the American metropolis has suffered from two flaws: the absence of a comparative (and historical) perspective and the stubborn repression of the political origins and dimensions of ghetto poverty. Margaret Weir ("Race and Urban Poverty," summer issue) forcefully brings both to the frontline of the debate and shows that the structures and policies of the American state are deeply involved in the continuing degradation of the urban core.

Yet Weir understates the political abandonment of the U.S. inner city. America has adopted a policy of punitive containment and criminalization of the consequences of extreme poverty. So-called welfare reform and Workfare have tried to force poor minorities into the substandard, casual jobs of the new service economy, while the War on Drugs has helped double the prison population in a decade, in effect replacing an already deficient social safety net by an increasingly tight police-and-prison "dragnet."

I disagree with Weir's claim that "racially identified divisions now form the subtext of politics across the West." First, this not only confounds "race" (in its highly peculiar American conception) with nationality, immigration, and citizenship status; it treats racial differences as an external datum when they are in good measure the historical product of the activities of the state.

Second, "race" is far from being a widely acceptable or effective principle of social vision and division in France. While ethnoracial differences have flourished on the political stage thanks to Le Pen's National Front, they have little potency in poor urban neighborhoods and have not spurred the formation of "ethnic communities" in the American mold. The youths who spearheaded the urban protests of the 1980s reject the idiom of cultural specificity; their claims center not on identity but on access to schools, housing, and jobs.

Third, the source of xenophobic tension in France is not the increased differentiation and isolation of *Beurs* (second-

generation immigrants of "Arab" descent) but, on the contrary, their rapid assimilation into French society.

This points to an issue deserving more focused attention: segregation. European countries have tried, with varying degrees of success, to stem segregation. In America, the eruption of the single most destructive racial-cum-urban disorder of the century in the midst of a presidential campaign could not put the topic on the table: segregation remains taboo.

Beyond differences in state structures and capacities, then, the continents diverge in their political ideology and civic culture. In France, poor urban neighborhoods are considered a collective problem that the government must resolve. In the United States, poverty is seen as a product of the deficient behavior and values of individuals and thus as "their" problem, the more so when it takes on a racial character that overlays the stigma of poverty with that of color.

Here I cannot but second Weir's conclusion: so long as urban poverty is defined as an issue concerning a specific "group" (as with the new scholarly mythology of the "underclass") rather than the whole nation, it will never be seriously confronted. Which means that until such time as the political elite is willing to tackle the unspoken and unspeakable question of "American apartheid," to use the apt expression of Douglas Massey and Nancy Denton, there is little hope of significant improvement for the urban outcasts of America.

*Loïc J. D. Wacquant,
Harvard University*

■ "Footloose" Americans

■ Margaret Weir ("Race and Urban Poverty," summer issue) reminds us how our country's

aversion to centralized government exacerbates the socioeconomic degradation and political abandonment of large central cities. She also clarifies the political reasons why sustained neglect of urban and racial problems is unlikely in Britain and France.

In the West political centralization and national integration go hand in hand. American federalism reflects national history and culture, including the legacy of regional slavery. With a continent of abundant land, Americans have always "voted with their feet," recreating socially homogeneous enclaves within what Robert Wiebe called a "segmented society." American industry, too, is footloose. In contrast, Europeans are disinclined to move, and strict planning regulates industrial location. Europeans' stronger attachment to place forges social identities so that residents stand their ground and newcomers adjust to existing patterns. European cities, particularly capitals, are also symbols of national identity and pride. In contrast, American values are epitomized in the small town, farm, or frontier, while the city has long been considered alien, corrupt, undemocratic.

Today the challenge facing urban Europe is less political or cultural than economic. Overall unemployment rates remain much higher than in the United States. If European poverty is not concentrated in the largest central cities, it is spatially uneven across regions. Despite national and EC redistributive efforts, European economic integration will probably exacerbate regional disparities. Thus, in neighborhoods and towns, suburbs and regions where economic distress coexists with social heterogeneity, racial tensions and political ferment may continue. But, as Weir notes, national sentiment

and political centralization should also facilitate timely governmental responses.

Hilary Silver, Brown University

On the Drug War Frontlines

■ Mathea Falco's *The Making of a Drug-Free America* brings a burst of fresh air to our stagnant drug policy debate. The genius of Falco's book is that she actually listens to people who face and fight the effects of drugs in their daily lives. Unfortunately, John DiIulio's review essay ("The Next War on Drugs," summer issue) seems oblivious to those voices.

Falco brings to light a variety of innovative strategies to reduce demand for drugs and harness the energies of new actors in the fight against drugs. Many of these programs have proven records of success. Others show promise, but need more empirical testing.

With barely a nod, DiIulio concludes that these programs, while good, inspiring, and effective, are not the stuff of which policy is made. "Successful programs depend on the lucky accident of caring and competent providers," he writes, and such wonder-workers "cannot be cloned by policy fiat." The blinkered message seems to be: since Washington cannot generate a golden horde of anti-drug miracle-workers, such programs cannot be key elements of a drug policy.

DiIulio needs to get out of the office a little more. A lack of caring and competent people is not our problem.

I work in Baltimore with community groups who are trying to redeem their neighborhoods and their young people from the ravages of the drug trade. Even the most drug-ridden of our communities are rich in courageous, dedicated, and capable people who can put into effect most of the programs that Falco discusses. In this

effort, our national drug policy gives them little or no support. DiIulio's review does not even acknowledge their existence.

The strategy Falco outlines would channel this energy and commitment into programs that work. We have been careening too long between the Scylla of imprisoning everybody and the Charybdis of legalization. Both are abstract and desperate policies. The alternatives that Falco portrays are a product of real experience, and, for a change, are full of hope.

*Michael A. Sarbanes,
Baltimore, Md.*

Energy Deregulation: A Policy for All Seasons?

■ Pietro Nivola ("Gridlocked or Gaining Ground?" summer issue) suggests that the processes through which the U.S. energy sector has been deregulated over the past decade illustrate certain generally unappreciated advantages of the decentralized, fragmented structure of American policymaking institutions. The suggestion is correct as far as it goes. But we should be cautious about using the particular case of energy deregulation to draw general prescriptions for institutional design.

Nivola rightly points out the institutional dynamic involved in energy deregulation. Regulatory agencies, and sometimes courts, interpreted existing law to permit relatively marginal liberalizing changes, which created or strengthened economic forces that helped produce broader policy change through legislation. As Nivola notes, a similar dynamic took place in transportation and telecommunications deregulation. He could have added banking, although the overall benefits in that case are in doubt. The implication is that discretionary action by administrative agencies and courts can sometimes facilitate useful policy innovation.

To keep all this in perspective, one needs to consider two points. First, the reformist actions of regulatory agencies and courts cited by Nivola reflected presidential leadership. President Carter strongly supported market-oriented policies in the banking, transportation, and telecommunications industries; Presidents Reagan and Bush did so in energy.

Second, deregulation in any industry lends itself to building momentum through incremental change. Permitting a little competition creates forces that demand more of it. But for other kinds of policy problems, the effect of incremental change is often the opposite. Suppose that the Department of Health and Human Services found ways to marginally expand the coverage of government health care programs. By no means would that increase pressure for universal access.

To advocate greater discretion for administrative agencies or a wider policymaking role for courts on the basis of the experience in regulatory reform would be unwarranted.

*Paul Quirk, University of
Illinois, Urbana-Champaign*

AIDS and Political Will

■ Christopher Foreman ("AIDS and the Limits of Czardom," summer issue) got the conclusion right—the real AIDS czar is President Clinton. No one expects Kristine Gebbie, the new AIDS administrator, to reorganize government with a staff of five or less.

The administrator can provide two-way communication between the AIDS world and the president. The president can use strategically chosen initiatives to set a healthier tone on this issue to bring aboard thousands of leaders who have not helped so far, from industry, government, academia, churches, foundations, and elsewhere in national life.

But changing the national tone on AIDS will be difficult. Presidential initiatives must be well-chosen—which requires effective communication between those in the White House and those in the trenches, each in touch with their own realities. The new administrator can be the channel for this communication.

On the question of *treatment research*, however, Foreman buys the widespread myth that the lack of progress in AIDS treatments stems only from the difficulty of the problem—as if pure science works at its own natural pace, untouched by national attitudes and politics. In fact, most AIDS clinical trials have rehearsed approaches that could not possibly meet the public-health needs of the epidemic or save the lives of those now ill—such as six years of tinkering with AZT despite the long-time knowledge of its limitations.

Industry money buys influence over public as well as private research, and practical new drugs and research directions lose out to high-tech, academic pursuits that build careers but will not produce treatment results for years. Most of the delay in clinical trials stems from commercial and bureaucratic obstacles, not scientific or medical ones.

No scientist or official could fix these problems singlehandedly. But they could be overcome if we as a nation had the political will to save lives, instead of ambivalence about whether those lives are worth saving.

*John S. James,
AIDS Treatment News*

The Review welcomes comments from its readers. Letters will be edited to conform to style and space.

Reinventing the Dinosaur?

BY JOHN J. DI IULIO, JR.

State and local governments, which languished only a generation ago in the backwaters of American democracy, are now leading the attack on the nation's biggest problems, from health reform to environmental protection. Today, America's governmental dinosaur is the federal bureaucracy, viewed almost universally as unresponsive, unproductive, and wasteful of taxpayers' money.

Understandably impatient with that dinosaur, President Clinton asked Vice President Al Gore to "reinvent" the federal government by Labor Day. But that bureaucracy cannot be reinvented—because it wasn't invented in the first place. Today's federal bureaucracy has evolved through pragmatic, almost catch-as-catch-can responses to problems as they have cropped up since the days of Woodrow Wilson.

The watchword for Gore's effort must be *evolution*, not reinvention. If experts in modern public administration have learned anything, it is that institutional reforms produce unintended consequences, frequently unwanted ones.

Abrupt, once-for-all reforms are the most likely candidates for the latter fate. What is needed is an incremental, experimental approach premised on a long-term commitment to make the government more efficient and more accountable.

History too counsels caution—and humility. The vice president's mission represents the eleventh major government reform effort of the 20th century. If the problems could be easily diagnosed or the solutions quickly implemented, the smart and dedicated people who led earlier efforts would have done the job long ago.

And the problems have gotten more complicated as the federal government's role has changed over the years. In 1950 the business of federal workers

was to deliver goods and services to the American people. Today only about 6 percent of the non-defense federal budget goes into the direct administration of anything. Most federal workers supervise state and local government and other contractors who actually deliver the programs the federal government funds. But federal workers still labor within a personnel system designed to produce experts at direct administration. Is it any wonder they are not superior performers? Pre-service and in-service training that equips federal workers to do what they actually do is a crying reform need.

In the hours leading up to last August's cliffhanger Senate vote on the budget deficit package, Clinton promised to meet holdout Sen. Bob Kerrey's demands for further budget cuts by streamlining the federal bureaucracy. And undoubtedly, improving the bureaucracy's performance can spell some savings in the long run. But the bulk of spending does not come from paying bureaucrats to run government programs. It comes from the programs themselves. Today the federal government employs roughly the same number of workers it did 40 years ago and spends about 15 times as much. Making federal workers more productive—even scrapping half the federal work force—will not put a dent in the budget deficit. Disagreements over what, and how much, government ought to do should not be confused with questions of how government can do whatever it does *better*. Gore's aim should be to close the *performance* deficit.

And closing that deficit is far from hopeless. Solutions must come first from removing the procedural straitjackets within which federal managers work. The president, and especially his Office of Management and



Budget, must reduce overcontrol through rules and paperwork. If government performance is to improve, it must begin with the president making effective management a top and ongoing priority. Cabinet secretaries, for example, should, whenever possible, grant state and local governments waivers to experiment with innovative programs, and OMB should cut at least one layer of middle management in all federal executive branch departments.

Members of Congress too must end their obsession with overcontrol through micro-management. They must see how their tinkering with details distorts the incentives of federal managers. Congress should strengthen career managers by reducing the number of political appointees by one-third. Congress should also give federal managers more flexibility to promote superior workers, demote or fire mediocre ones, and reward superior performance with financial bonuses.

And congressional committees should produce management impact statements on legislation they produce, so both they and we know that the programs will work.

As of this writing, no one knows what reforms Gore will propose. But whatever they are, one key to judging their likely success or failure is the timetable of the reform blueprint. If it allows about a generation for the reforms to work their way through the immense bureaucracy, it may just succeed. ■

John J. DiIulio, Jr., professor of politics and public affairs at Princeton University and nonresident senior fellow in the Brookings Governmental Studies program, is a co-author, with Gerald Garvey and Donald F. Kettl, of Improving Government Performance (Brookings, 1993).

Saving Our Way Out

WILLIAM G. GALE AND ROBERT E. LITAN



of the Deficit Dilemma

REDUCING THE GOVERNMENT'S BUDGET DEFICIT—now about \$300 billion a year, or 5 percent of GDP—has been at the top of the economic policy agenda for more than a decade. Even after the recent budget package agreed to by President Clinton and Congress, the deficit is projected to be about 3 percent of GDP in 1998 and to grow rapidly thereafter. Despite everything, the long-term forecast is still “deficits as far as the eye can see.”

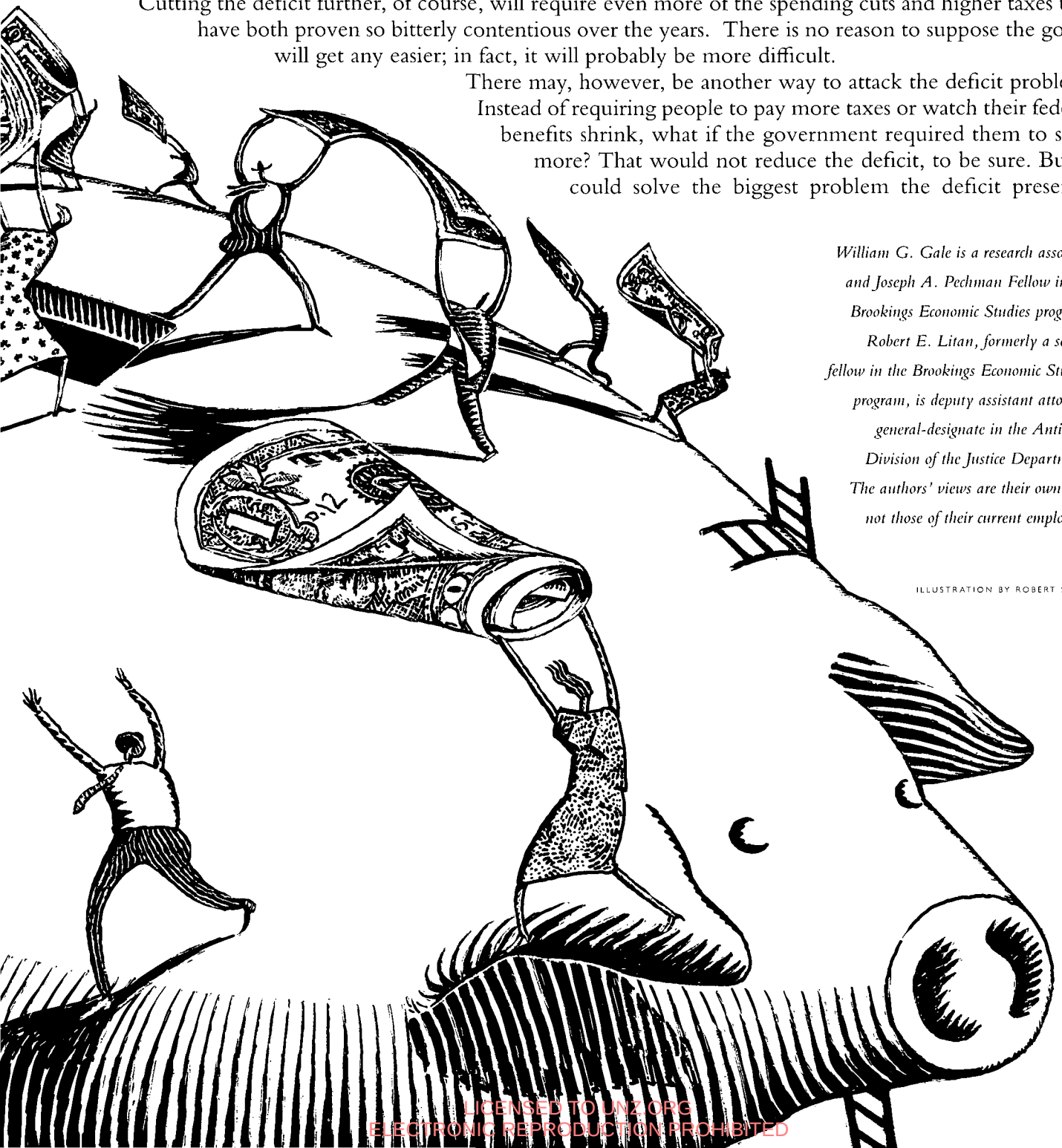
Cutting the deficit further, of course, will require even more of the spending cuts and higher taxes that have both proven so bitterly contentious over the years. There is no reason to suppose the going will get any easier; in fact, it will probably be more difficult.

There may, however, be another way to attack the deficit problem. Instead of requiring people to pay more taxes or watch their federal benefits shrink, what if the government required them to save more? That would not reduce the deficit, to be sure. But it could solve the biggest problem the deficit presents.

William G. Gale is a research associate and Joseph A. Pechman Fellow in the Brookings Economic Studies program.

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Why Care about the Deficit?

In the short term, the deficit probably poses little threat of financial crisis. That's one reason it's so hard to reduce. But large, continuing deficits absorb the saving of the private sector and leave little for businesses to invest in research, training, plant, and equipment. Reduced investment, and the resulting lower capital stock, will ultimately mean slower growth of living standards for future generations. Although foreign investors can and have provided financing for U.S. investment in recent years, returns on their investments accrue to them.

If saving were high, the nation could still underwrite needed private investment. But the national saving rate—the sum of public saving by governments and private saving by individuals and businesses—has plummeted in recent years: from an average of 7–8 percent of GDP in the 1960s and 1970s, to under 4 percent in the 1980s, and to just 0.6 percent last year (see figure 1). By contrast, in the late 1980s, Europe averaged around 7 percent, while Japan's rate was in double digits.

A nation saving less than 1 percent of its income cannot expect to grow much or to provide the highest living standard in the world. The best way to raise national saving is to reduce the deficit. But if political difficulties make further deficit reduction impossible, raising *private* saving achieves the same objective.

Tax Incentives for Private Saving

Not that the government hasn't *tried* to raise saving. During the 1980s it attempted to nurture saving in several ways. In 1981 all workers were made eligible for IRAs, which featured tax-deductible contributions and tax-free accrual of interest. (Deductibility of IRA contributions was curtailed in 1986, but interest still accrues tax free.) Other tax-deferred plans, such as Keoghs and 401(k)s, grew rapidly later in the decade. In addition, real after-tax returns on all assets increased dramatically, because of sharp drops in marginal tax rates in 1981 and 1986 and high real interest rates.

Still, private saving fell—from roughly 7 percent of GDP in 1980 to around 5 percent in the 1990s. From that experience some valuable lessons emerged. First, aggregate saving does not appear to rise with increases in the after-tax rate of return. People *may* save more to take advantage of higher interest rates, but they may instead save less. A “target saver,” for example, can save less with higher rates but still meet a desired wealth target. Defined-benefit pension plans, which account for a large share of U.S. private saving, act like target savers, since they can produce the same future benefits with lower contributions when yields rise.

Second, the incentives—IRAs in particular—were designed poorly. Because IRA contributions are tax-deductible (for most households), public sector saving falls as contributions rise. And IRA contributions do not represent increases in private saving if taxpayers pay for them by borrowing, by shifting existing assets, or by using money they would have saved anyway. In the end, therefore, national saving may remain just about what it was before the saving incentive.

How much did IRAs raise saving during 1982–86, their “golden years”? During that period IRA contri-

butions averaged about 1 percent of GDP, but the tax deductions resulted in federal and state governments losing, we estimate, 20 percent of all contributions in forgone tax revenues. Estimates of the portion of contributions that was new private saving range from below zero to two-thirds. Taking 30 percent as a mid-range estimate, we calculate that IRAs raised national saving only 0.1 percent of GDP. For the same reasons—contributions are tax-deductible, yet may not represent new private saving—neither 401(k) nor Keogh plans may raise national saving much either.

Acknowledging these flaws, B. Douglas Bernheim of Princeton University and John Karl Scholz of the University of Wisconsin have proposed “Premium Saving Accounts,” which would provide tax deductions only for *net* saving above a certain minimal level, or floor, and below a maximum level, or ceiling, both of which would rise with income. For example, a household with income of \$80,000 might receive deductions on net saving between \$8,000 and \$10,000, while one with \$20,000 in income could deduct the first \$2,000 of net saving. Focusing on net saving disallows contributions financed by borrowing or asset shifting. And the rising floors limit tax breaks for saving that would have been done anyway.

PSAs are a clever and intriguing response to some of the problems with IRAs, but they may not boost national saving much. PSAs would likely attract fewer contributions than tax-deductible IRAs did, say 0.67 percent of GDP. If two-thirds of PSA contributions were net additions to private saving, and they were deducted from taxes at an average rate of 20 percent (as were IRAs), then PSAs would raise national saving by only about 0.3 percent of GDP.

Mandatory Saving

Another possibility is to *mandate* more private saving. As repelled as voters are by the prospect of increased taxes or benefit cuts, they may find a well-designed mandatory saving program an attractive alternative.

But can an effective mandatory saving plan be designed? To illustrate both the potential and the problems of mandatory saving, we outline two possible approaches. The first is simple, but ineffective in raising saving. The second could raise national saving significantly, but is more complex and intrusive.

The simplest saving mandate would require people of working age to place a percentage of their adjusted gross incomes each year into a Mandatory Saving Account, or MSA. Like income taxes, required saving rates could rise with income. Like IRAs, taxpayers could choose how to invest their funds (within limits), but unlike IRAs, the required contributions would not be tax-deductible. MSAs would be easy to administer, and could be backed by tax penalties. Individuals could still obtain tax benefits through IRAs, 401(k)s, and other plans, but only after meeting the MSA requirement.

Unfortunately, the MSA plan is subject to *substitution*, the same problem that plagues IRAs and other existing tax-favored saving vehicles. People with large asset holdings could shift funds to an MSA without raising their saving. And millions of Americans with

pension plans could shift contributions to meet an MSA requirement. For these reasons, our rough estimates, using data we describe shortly, suggest that any reasonable progressive MSA requirement would have little effect on national saving.

Net Saving Requirements

MSAs are ineffective because they focus on *gross* contributions into a specific account. A *net* saving requirement would be more difficult to evade, because net saving is not increased by shifts of assets from one form to another or by borrowing to finance asset purchases.

One way to measure net saving is to have individuals report their expenses as well as their income on tax returns (the difference being saving). But imposing such immense record-keeping burdens is unthinkable.

A better way is to track *net flows* of qualified assets and debt. Table 1 shows how. The taxpayer would calculate all purchases of financial assets and other qualified assets (say, residential real estate, automobiles, and depreciable physical assets, including computers) and then subtract all sales of similar assets. To this figure, increases in bank balances would be added and reductions in debts added. The result is net saving.

Under this definition, purchases of qualified assets leave net saving unchanged, since the investment would be financed by borrowing or by reducing other assets. Repaying principal on debts would count as saving.

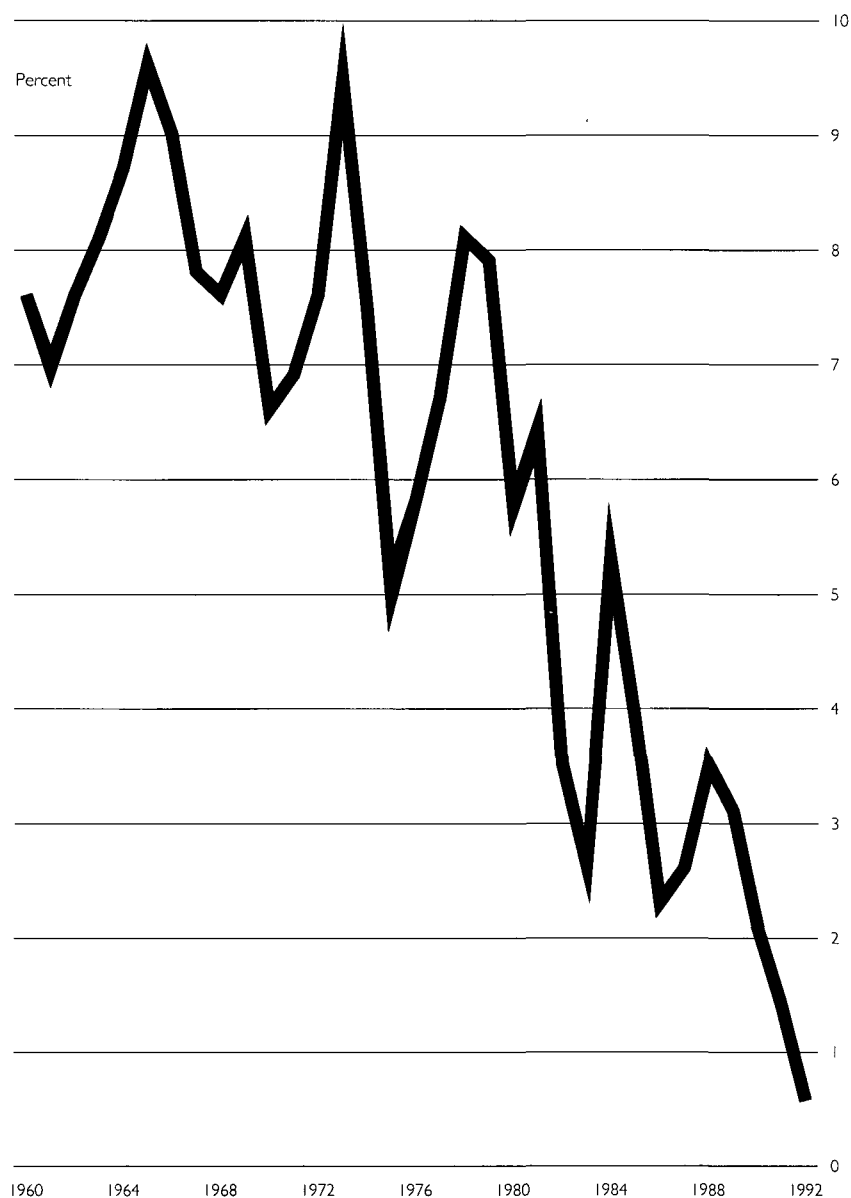
A progressive net saving requirement could exempt taxpayers with incomes below \$20,000. Other taxpayers could be required to have net saving of 4 percent of income between \$20,000 and \$40,000, plus 6 percent of any income between \$40,000 and \$60,000 and so on, up to 10 percent of income above \$80,000. Taxpayers whose saving fell below the requirement would be obligated to pay a portion, perhaps all, of the shortfall to the government.

The effects of this illustrative saving schedule can be estimated using data from Federal Reserve Board Surveys of Consumer Finances, which contain detailed information on income, assets, and liabilities of a set of households interviewed in 1983 and again in 1986. For each working-age household, we calculated saving in two ways: in financial assets and debt, and in financial assets and debt plus home equity. Our saving measures omit employer-provided pension contributions, business assets, and land. We exclude households with incomes above \$150,000 (in 1993 dollars) because the saving data may not be reliable for current purposes, but we return to this point below.

Table 2 estimates the effect of a net saving requirement based on the 1983–86 data. Actual 1983–86 saving rates (column 1), excluding home equity, ranged from -0.2 percent of income for households with income below \$20,000 to 7 percent for households with incomes between \$40,000 and \$60,000. A significant portion of the population (column 3) saved less than would be required under the net saving mandate outlined above, given our saving definition. A net saving requirement raises national saving by forcing these low-saving households to save more.

To measure the effects of the net saving requirement, we assume households with pensions contribute

Figure 1. National Saving as a Share of GDP



Sources: Congressional Budget Office, *Assessing the Decline in the National Saving Rate*, April 1993, table A-1; *Survey of Current Business*, May 1993, table 5.1.

10 percent of their income to the pensions and add that figure to their calculated saving rate. Any shortfall between that sum and the saving requirement would have to be met by new net saving.

As the last two columns of the table show, the net saving requirement boosts the private saving rate by 2.3 percent of GDP when only financial assets and debt are counted as saving. When saving includes residential equity, it rises by 4.1 percent of GDP. Other saving definitions yield similar results.

The calculations may overstate the increase in national saving because they do not deduct any loss in tax revenues from additional saving in tax-favored vehicles that the net saving requirement might encourage. But they also omit any additional saving by households with incomes above \$150,000, whose requirement would be \$10,600 plus 10 percent of income above \$150,000. Some of these households would likely have to raise their saving to meet that requirement. And some households would want to maintain discretionary or precautionary balances, which would further increase saving.

In any case, the estimated rise in saving is substantial, particularly since in 1992, personal saving was 3.6 percent of GDP and national saving was just 0.6 percent. Perhaps more important, the estimated increases are roughly in line with projected future deficits, suggesting that the effects of deficits on national saving could be largely offset by net saving requirements.

Design Issues

Implementing a net saving requirement would entail addressing a host of difficult administrative and design issues, which we have ignored so far. While the obstacles are formidable, the only alternatives are higher taxes, massive spending cuts, or stagnant living standards.

To begin then. Net saving requirements would impose substantial administrative and information costs on all taxpayers. As Bernheim and Scholz have noted with regard to their proposed PSAs, taxpayers should be able to provide information on bank balances, outstanding debt, and purchases and sales of financial assets relatively simply. Net saving requirements, however, impose two more burdens. The definition of qualified assets may be wider, so documenting purchases may be more difficult. And net saving requirements would apply to *all* taxpayers, whereas enrollment in PSAs would be voluntary.

Defining qualified assets may also be tricky. Congress may want to include various types of "targeted" activities (a backdoor industrial policy) or include only government bonds, both bad ideas. The definition is particularly difficult for self-employed people, who would have to merge business and individual accounts. There is also a slippery slope—if computers qualify, why not computer software? Developing an airtight definition is difficult because of a more fundamental problem—there are many ways to define saving. At best, the definition of qualified assets could be made clear and consistent, but would always be subject to political manipulation.

Taxpayers should be able to carry over saving in ex-

Table 1. Calculation of Saving Based on Net Flows

1. Purchase of financial, personal residential real estate, and other qualified assets during the year	\$8,000
2. Less: Sales of all qualified assets during the year	- 4,000
3. Equals: Net asset purchases	\$4,000
4. Plus: Increase in bank balances during the year	+ 1,000
5. Plus: Reduction in debt during the year	+ 500
6. Equals: Saving (line 3 + line 4 + line 5)	\$5,500

Table 2. Effects of a Net Saving Requirement

Household income class (thousands of 1993 dollars)	Actual saving rate (percent)*	Marginal net saving requirement	Percent of households saving less than net saving requirement	Average saving rate (percent) under net saving requirement	
				Financial assets and debts	Financial assets and debts plus home equity
<20	-0.2	N/A	N/A	-0.2	-9.0
20-40	2.2	4	46.3	6.7	10.0
40-60	7.0	6	40.8	10.7	13.9
60-80	1.9	8	49.1	8.7	14.9
80-150	1.8	10	48.4	10.0	13.6
All	3.4	N/A	33.5	8.3	11.1
Increase in private saving/GDP†	—	—	—	2.3	4.1

Source: Authors' estimates from the 1983-86 Survey of Consumer Finances.

N/A. Not applicable

* Financial assets and debt.

† Calculated using information on aggregate Adjusted Gross Income and Gross Domestic Product.

cess of the requirement and withdraw it without affecting the net saving requirement in future years. To ensure that people, especially younger families, have some discretionary or precautionary funds available at the beginning, taxpayers could be given a one-time paper credit of a certain amount, such as the greater of \$2,000 or 5 percent of the average of their past three years of income. Taxpayers would be able to exhaust the credit on purchases of (nonqualified) consumer durables before having to meet the saving requirement.

Any requirement would likely allow withdrawals for contingencies such as large health care expenses, casualty losses, or big drops in income. Net saving requirements impose especially stiff burdens on people with falling income, who would presumably like to dip into their assets. Permissible withdrawals for specified purposes, most obviously retirement, but also college expenses for children, or job training or first-time home purchases for taxpayers themselves, would also likely be a feature of any implemented plan. All these exceptions, however, increase administrative costs and reduce the effect on saving.

There is also an important incentive problem. Under the saving schedule listed above, individuals earning under \$20,000 face no requirement. As soon as they earn the 20,000th dollar, the net saving requirement becomes zero. If they had previously been borrowing 10 percent of their income, they would need to pay off \$2,000 in debt because of the last dollar they earned. Obviously a certain range of workers would be strongly discouraged from earning more. The problem could be dealt with in principle by an income averaging scheme, but that would add great complexity at the end of the income spectrum that can handle it least.

Attention also needs to be given to how a progressive saving requirement should change with family size and marital status. And since pension contributions would count as saving, they should also be included in the income base, even though they are not currently part of adjusted gross income. That would require more reporting from pension accounts.

These difficulties should not be understated. Many citizens would resent the loss in privacy and the intrusive administrative and compliance costs that any mandatory saving requirement may entail. One way to make the requirements easier to swallow, given that they would make many Americans wealthier, would be to reduce estate taxes (that now generate only about \$11 billion in tax revenue). Withdrawals for contingencies and special purchases may also help. And political leaders might be able to relieve some of the remaining anxiety by making it clear that the issue is not *whether* to raise national saving, but *how*, and that the alternative is the pain of deficit reduction.

Broader Issues

The obvious objection to mandated saving plans is “what’s wrong with the status quo?” Primarily, of course, what’s wrong is that the current national saving rate of around 1 percent is extremely anemic by any standard and surely implies slowing or eliminating the growth of living standards for future generations. Second, the many incentives encouraging Americans

not to save are probably driving saving and the capital stock lower than is socially desirable. Third, some experts fear that many Americans may not be saving adequately for retirement. Those who save too little may seek public assistance—thus worsening government budget problems as the baby boom reaches retirement. One response, though certainly not the only one, to all these issues is a mandated saving program.

A second objection is that mandating saving sounds like a tax increase. Mandated saving is clearly coercive in the same way taxes are and should be explicitly recognized as a substitute for a tax increase, but there the resemblance ends. Tax payments, once made, are forever gone, whereas funds saved stay there, to be withdrawn later by taxpayers themselves or their heirs.

Third, won’t the increased saving—and thus decreased spending—drag down the economy? Not if the requirements are gradually phased in. The Federal Reserve could offset the relatively small drop in aggregate demand with monetary stimulus.

Fourth, won’t mandating saving just give the government an excuse to run up ever larger deficits that will cancel out the benefits of higher saving? This is a serious problem. Tying the saving requirement to the size of the deficit would give every household in the country a clear and immediate stake in deficit reduction and could help Congress get control of the deficit. But mandated saving could not guarantee that the deficit would not rise.

Finally, even if mandated saving could offset the effects of deficits on national saving, it would not eliminate all the concerns one might have about the deficit: foreign ownership of the debt, the way the deficit hamstrings policymakers’ ability to use macroeconomic stabilization policy, the draining and cumulative effects of rising net interest payments, the magnitude and direction of intergenerational transfers embodied in fiscal policy, and a fundamental imbalance between what Americans want from government and what they are willing to pay.

The Lesser Evil?

In evaluating the desirability of mandated saving, two sets of questions need answers. The first is whether a workable plan can be implemented. If it can be, the second is whether that plan is desirable *compared with other options*. In the best of all possible worlds, no one would have to consider tax increases, spending cuts, or saving mandates. But U.S. economic growth has been and will be seriously impaired by low national saving and high public deficits. While we strongly support further deficit reduction, we also fear that the political system may be unable to pull it off any time soon.

If so, Americans have three options. They can live with large and rising federal deficits and the anemic national saving rates they imply, with adverse consequences for their children and future generations. They can accept, eventually, the inevitably painful consequences of much larger spending cuts and higher tax increases than those just passed by Congress. Or they can raise the private saving rate. The last choice will not be easy or painless, but at the very least, it ought to be on the public agenda. ■

IN LOCO PARENTIS

HELPING CHILDREN

WHEN FAMILIES FAIL THEM

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Policy elites, whether liberal or conservative, usually explain the problems of the urban underclass in terms of wrong incentives. Liberals rail at the lack of benefits and opportunities afforded the underclass; conservatives, at the excess of benefits offered without corresponding obligations. Liberals blame crime on poverty and joblessness; conservatives, on insufficiently severe criminal sanctions. Invariably, the argument boils down to incentives—rewards and penalties.

Ordinary citizens see the matter differently. Though acknowledging that the incentives may be poor—education inadequate, jobs scarce, and the criminal justice system ineffective—the public tends to stress the attitudes of the permanently poor and the habitually criminal, attitudes formed in the family (or, increasingly, the nonfamily) and reinforced by the culture. Those attitudes—which, I would emphasize, are not unique to the underclass, but are particularly destructive in their effect there—are characterized this way: a belief in rights but not in responsibilities, an emphasis on “me” and a neglect of “we,” a preference for immediate gratification over investments for the future, and an expectation that if one is lucky or clever enough one can get something for nothing.

Some of these attitudes may be the result of scarce legitimate jobs and abundant criminal opportunities. But if those factors were the whole story, the results of carefully evaluated efforts to change behavior by supplying jobs, providing training, or altering penalties would not be as discouraging as they are. And if the objective conditions of inner-city life were all that mattered, then we would not see such great differences in behavior among individuals and groups confronting similar conditions. Without denying the importance of incentives, I want to side with the view of the average citizen who believes that poor self-control and indifference to the rights of others arise in large part from poor family training.

The Family's Socializing Role

The chief means by which every society induces its members to exercise a modicum of self-control and to assign a reasonable value to the preferences of others is the family. Developmental psychologists are in broad agreement that the parental practices most likely to achieve these goals involve a combination of affection and discipline such that the child's attachment to the parents is strong and the rules of everyday behavior are clearly understood and consistently enforced. Fortunately, most babies are biologically eager for attachment and predisposed to socialization, and most parents love their children and invest without compensation in their rearing.

But individuals differ in the extent to which they have (or reveal) prosocial impulses, and so some children are difficult and some parents incompetent. Unfortunately, since temperament is to a significant degree under genetic control, there is an elevated probability that difficult children will be born to incompetent parents. Socialization failures, if incor-

rected, can breed—literally—more failures. Crime runs in families, alcoholism runs in families, impulsive and sensation-seeking behavior runs in families.

Matters become worse if families cease to exist or are transformed into pseudo-families. Poverty, as Daniel Patrick Moynihan steadily and rightly reminds us, has now become a children's problem owing chiefly to the fact that an increased proportion of children live for long periods, sometimes their entire childhood, in mother-only families, a large fraction of which are also poor. A 1988 Department of Health and Human Services study found that at every income level save the very highest (over \$50,000 a year), children living with never-married mothers were more likely than their counterparts in two-parent families to have been expelled or suspended from school, to display emotional problems, and to engage in antisocial behavior.

If the family is headed by a teenage mother, the risks are even greater. Children of teenage black mothers are less able to control their impulses, have a lower tolerance for frustration, are more likely to be hyperactive, have more difficulty adapting to school, and, if boys, are more likely to be hostile, assertive, and willful than children of older mothers.

Possibilities for Change

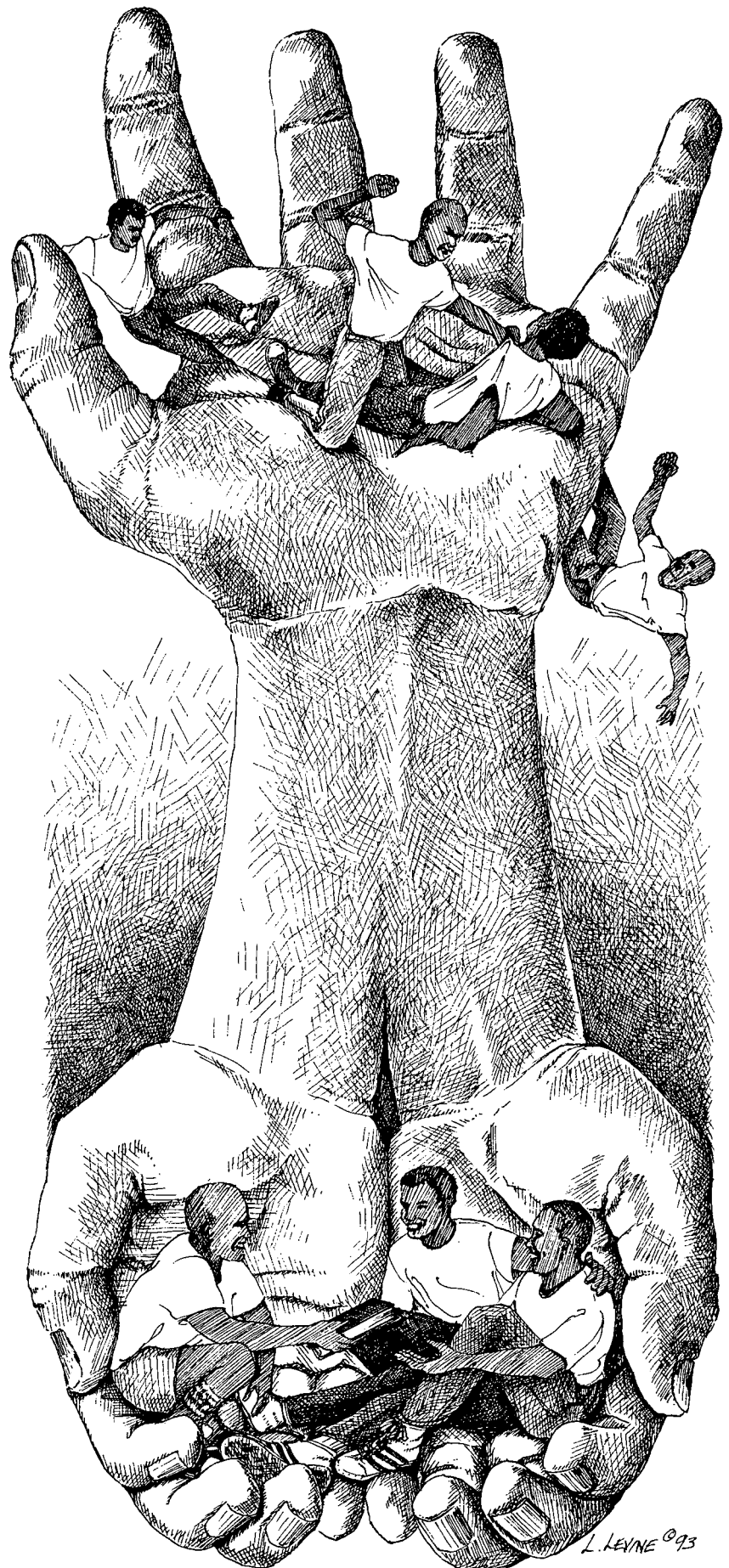
Is there any way to come to the aid of a weakened family, specifically to help it instill in its children the habits of mind and character that will enable them to take better advantage of whatever opportunities they have?

In principle, the answer is yes. Certainly, that is the governing assumption of every religious and of many secular efforts to help social outcasts—alcoholics, drug abusers, and school dropouts—and those efforts have produced many successes. The problem arises in trying to imagine a program that by plan and in the hands of ordinary managers will achieve the necessary personal redemption for large numbers of people.

Efforts to do this on a large scale and by bureaucratic processes have not, on the whole, proved very successful. For example, efforts to rehabilitate large numbers of delinquents or criminals have met with more failures than successes. Though there are some success stories, no one should suppose that we know how to convert large numbers of 18-year-old delinquents into law-abiding citizens.

Nor can one take much hope from two recent occasions in which the military had an opportunity to test whether its intensive training and strict discipline could improve the prospects of difficult boys. The first experiment began in 1966, when Secretary of Defense Robert McNamara undertook Project 100,000 as a way of contributing to the War on Poverty, and ended in 1971. The second took place by accident during 1976–80, when the military enlistment test was misnormed and low-aptitude individuals were inadvertently recruited.

Investigators studied veterans of both these quasi-experiments, comparing their economic, educational, and family status with that of people of similarly low aptitude who had never served in the military. Although most of the low-aptitude veterans said that



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their military experience had been good for them, primarily because it taught them discipline and made them more mature, the belief did not correspond to reality. Project 100,000 veterans were *worse* off than non-veterans in employment status, educational achievement, and income; misnormed veterans were *no better* off than nonveterans. All were more likely to be divorced than the nonveterans. As the authors of the study concluded, "The military doesn't appear to be a panacea for struggling youth."

Clearly, addressing the problems of temperamentally difficult or low-aptitude youth is not easily done if one waits until they have reached their teens or young adulthood years. What if the intervention could begin earlier? Evidence from early childhood programs is more encouraging but still fragmentary and in some cases inconsistent.

Early Intervention

Scarcely any governmental program is more popular today than Head Start, but even its long-term effects are in doubt (no lasting effects on IQ have been found, and only a little evidence exists on Head Start's effects on such matters as pregnancy, welfare, and crime). The strongest evidence of long-term effects of preschool education comes from one (non-Head Start) program, the Perry Preschool in Ypsilanti, Michigan, whose "graduates" were followed for many years. Compared with a control group, the Perry students were found to be less likely to drop out before finishing high school, less likely to go on welfare, more likely to be working after leaving school, and less likely to have been arrested.

Why did the Perry program (and possibly a few other model programs) do so well? One reason is that they *were* model programs conducted by capable people who had received intensive training and ample budgets. Another is that the Perry project was not limited to providing children with preschool experiences for twelve-and-a-half hours a week. It also involved an extensive program of home visits.

Something akin to the Perry results, albeit (thus far) only for the short term, has been reported by the Infant Health and Development Program, which provided intensive services to nearly 1,000 premature infants in eight cities. The infants, at risk for retardation, behavioral problems, and learning difficulties, were randomly assigned to treatment and control groups. Infants and parents in the experimental group received weekly (later biweekly) home visits by trained counselors. After their first birthday the babies attended child development centers five days a week. And parents attended biweekly meetings at which they were given information and could share experiences. At age three, children in the experimental group had higher IQs and fewer behavioral problems than those in the control group. Gains were greatest for children who had the most disadvantaged mothers.

Suppose that the long-term results from the premature baby project parallel those of the Perry Project. What lessons can we infer? The most obvious and (to some) perhaps the most troubling is that in-

tervention programs produce more benefits the more deeply they intervene. For at-risk children, the more the programs either assume parental functions or alter the behavior of parents, the greater the benefit to the child.

Another possibility, albeit one that has as yet only fragmentary evidence, is that long-lasting interventions are likely to make more of a difference than short-term ones. Children cannot be inoculated against behavioral problems as they are against smallpox. Yet beginning at age five or six the only intervention program aimed at children and generally under government control is the school.

The central role of the school has led Americans to focus their hopes for character formation on it, hopes that receive some support from studies suggesting that the schools doing the best job of educating children are also those that do the best job of controlling their behavior. But even the best schools rarely occupy a child more than six hours a day, half the days of the year. And even the best school cannot offset the threats of disorderly streets, the neglect of absent parents, or the discord of unhappy homes.

Is Boarding School an Option?

Families with the necessary financial resources have always had an important way of coping with hard-to-socialize children or of escaping their responsibility for socializing them—the boarding school. Families of lesser means have heretofore had no such option for their at-risk children. But could not public resources be used to enable families in underclass neighborhoods voluntarily to enroll their children, beginning at an early age, in boarding schools?

I have in mind no single model of what such a boarding school would do, only a set of guidelines. In the elementary years, a boarding school would simply extend the number of hours the child was under school rather than parental supervision. School might become an all-day affair, with the child given breakfast and dinner and supervised after-class play opportunities in addition to regular instruction. In the extreme case of a child with no competent parent at all, sleeping quarters would be provided. As the child got older, say in the junior high years, it would become a full-time boarding school with home visits arranged by mutual agreement. The schools would be operated, I would hope, by private as well as by public agencies. Enrollment, as stated, would be voluntary but encouraged for at-risk children. The primary object would be to provide a safe, consistent, and enjoyable mechanism for the habituation of the child—that is, for the inculcation of the ordinary virtues of politeness, self-control, and social skills. Another goal for these schools would be either to place their students into a college or to qualify them for entry into an occupation by means of an apprenticeship program.

Instead of leaving matters entirely to chance or voluntary participation in a boarding school program, perhaps better homes could be supplied in other ways. Suppose that unmarried mothers seeking welfare were given a choice: as a condition of receiving financial aid, they must either live with their parents or in

group homes where they would be instructed in child care, receive a regular education, and conform to rules governing personal conduct and group responsibilities. The key elements in this idea are threefold. Do not allow welfare to be used for subsidizing independent but dysfunctional households; do not require the mothers of small children to work outside the home; and provide the best and most structured start in life for the next generation of children.

No More Fatherless Families

Boarding schools may be especially important for boys growing up in a fatherless family. Much has been said about the economic and psychological costs borne by such children. But something also must be said about the equally important communal costs. Neighborhood standards and values may be set by mothers, but they are enforced by fathers, or at least by adult males. Neighborhoods without fathers are neighborhoods without men able and willing to confront errant youth, chase threatening gangs, and reproach delinquent fathers.

I do not know any way of requiring this generation of errant fathers to take up their responsibilities. The reach of the law has been lengthened, but we should not be optimistic that this will result in more than a modest increase in the size of family support payments received by some mothers, much less any increase at all in the extent to which fathers would help care for the children. Our chief goal ought to be reducing the number of errant fathers produced by the *next* generation—that is, increasing the number of young urban males who marry and remain married.

Of all the institutions through which people may pass—schools, employers, the military—marriage has the largest effect. For every race and at every age, married men live longer than unmarried ones and have lower rates of homicide, suicide, accidents, and mental illness. Crime rates are lower for married than unmarried men, and incomes are higher. Infant mortality rates are higher for unmarried than for married women, whether black or white, and these differences cannot be explained by differences in income or availability of medical care. An unmarried woman with a college education is more likely to have her infant die than is a married woman *without* a high school education.

Though some of these differences can be explained by female selectivity in choosing mates, I doubt that all can. Marriage not only involves screening people for their capacity for self-control, it also provides inducements—the need to support a mate, care for a child, and maintain a home—that increase that capacity.

Public Funds, Private Programs

In the past, the institutions that have produced effective male socialization have been private. Today we expect government programs to accomplish what families, villages, and churches once did. I think we will be disappointed. Government programs, whether aimed at farmers, professors, or welfare mothers, tend to produce dependence, not self-reliance. Our policy ought to be to identify, evaluate, and encourage those local, private efforts that seem to do the best job at reducing drug

abuse, inducing lovers to marry, persuading fathers to take responsibility for their children, and exercising informal social control over neighborhood streets.

The federal government is a powerful but clumsy giant, not very adept at identifying, evaluating, and encouraging. What it is good at is passing laws, transferring funds, and multiplying regulations. These are necessary functions, but out of place in the realm of personal redemption. When the elephant walks among the chickens, the collateral damage can be great. A government program to foster personal redemption will come equipped with standardized bud-

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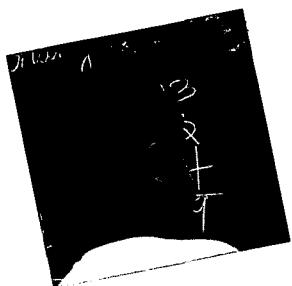
gets, buy-America rules, minority set-asides, quarterly reporting requirements, and environmental impact statements, and, in all likelihood, a thinly disguised bias against any kind of involvement with churches.

There may be a better way. Public funds might be sent to private organizations that in turn do the identifying, evaluating, and encouraging, all on the basis of carefully negotiated charters that free these intermediaries from most governmental constraints. I know of no example, but people who wish to think seriously about changing the culture of poverty had better start inventing one. ■



SCHOOL WARS

A BRIEF HISTORY OF MULTICULTURALISM IN AMERICA



Nathan Glazer is professor of education in the Harvard University Graduate School of Education and co-editor of *The Public Interest*. This article is adapted from a chapter in *Values and Public Policy*, edited by Henry J. Aaron, Thomas E. Mann, and Timothy Taylor (Brookings, forthcoming).

Recent proposals that U.S. schools and colleges give greater emphasis to the history and accomplishments of America's racial and ethnic minorities—become more “multicultural”—have generated an intense public debate. None of the leading critics of a multicultural curriculum—neither Arthur Schlesinger, Jr., author of *The Disuniting of America*, nor Diane Ravitch, the educational historian and former assistant secretary of education, nor Albert Shanker, president of the American Federation of Teachers—argues against a healthy diversity that acknowledges the varied sources of the American people and its culture. Still, all see a multicultural curriculum as a threat to the way we live together in a common nation.

Specifically, the critics envisage the possibility that large sections of the American population, particularly poor racial and ethnic groups that have been subjected to discrimination, will receive an education that attributes blame for their condition to the white or European majority and thereby worsens political and social splits along racial and ethnic lines. The gravest fear is that “oppression studies,” as opponents label multiculturalism, will cultivate an active hostility among some minorities to the key institutions of state and society, making effective government, as well as the economic progress of such groups, more difficult.

To its critics, multiculturalism looks like a very new thing in American education. In many respects, it is. However, viewed in the long stretch of the history of American public schooling, we can recognize it as a new word for an old problem: how public schools are to respond to and take account of the diversity of backgrounds of their students—religious, ethnic, racial. U.S. public education, at least that part of it in our major cities, has rarely been free of this issue. For some decades, between the decline of European immigration in the 1920s and the rise of black nationalism in the 1960s, we *were* free of it. Undoubtedly, this halcyon period, during which many of the chief participants in the debate were themselves educated, colors their view of the current dispute.

As Old as Urban Public Schools

With the origins of urban public education in the 1840s, the first of the “great school wars,” as Diane Ravitch calls them in her history of New York City public education, broke out. That first war centered on the demands of Catholic leaders for something like equal treatment for Catholic students in public schools whose principal aim was to socialize children into the Protestant moral and religious world of the mid-19th century. Catholic religious leaders objected in particular to readings from the Protestant King James Bible. Why not the Catholic Douay translation? (No one dreamed, in those distant days, that the First Amendment to the Constitution, with its prohibition of an “establishment of religion,” would in time be used to ban all Bible reading in schools.) The outcome of the conflict was that Catholics decided to establish their own schools, to the degree

their capacities allowed, and created a separate, Catholic system of education in the major cities of the country.

In the 1880s and 1890s, bitter public disputes broke out about the rights of the children of German immigrants to receive instruction in German. Teaching in German was widely established in Cincinnati, St. Louis, and elsewhere, to the discomfort of nativists and those concerned with the assimilation of immigrants. In 1889, the historian David Tyack tells us, Illinois and Wisconsin "tried to regulate immigrant private and parochial schools by requiring that most instruction be conducted in English. As in the case of Protestant rituals in the schools, the contest over instruction in languages other than English became a symbolic battle between those who wanted to impose one standard of belief and those who welcomed pluralistic forms of education."

World War I, with its encouragement of a fierce national (or was it ethnic?) chauvinism, finished off the acceptance of German as a language of instruction in public schools. Nevertheless, it was during the build-up to entry into the war that the first major arguments for multiculturalism in American education were set forth.

"Cultural pluralism" was the term Horace Kallen, a student and follower of John Dewey, used to describe a new kind of public education, in which a variety of cultures besides that of England would receive a significant place in American public education. His essay, "Democracy versus the Melting-Pot," appeared in *The Nation* in 1915. About the same time, Randolph Bourne, a young journalist who had written a book on the progressive, Dewey-influenced, Gary, Indiana, schools, made a similar case in *The New Republic*, in an essay titled "Transnational America."

John Dewey himself in 1916, speaking to the National Education Association, took up the cudgels for cultural pluralism:

Such terms as Irish-American or Hebrew-American or German-American are false terms, because they seem to assume something that is already in existence called America, to which the other factors may be hitched on. The fact is, the genuine American, the typical American, is himself a hyphenated character. It does not mean that he is part American and that some foreign ingredient is in his make-up. He is not American plus Pole or German. But the American is himself Pole-German-English-French-Spanish-Italian-Greek-Irish-Scandinavian-Bohemian-Jew—and so on. The point is to see to it that the hyphen connects instead of separates. And this means at least that our public schools shall teach each factor to respect every other, and shall take pains to enlighten us all as to the great past contributions of every strain in our composite make-up.

But if Dewey, Kallen, and Bourne play a role in the history of multiculturalism, it is only as advocates without any direct influence on the schools. The wave of postwar chauvinism that led Americans to deport East Europeans to Bolshevik Russia, to ban mass immigration, and to revive the Ku Klux Klan was too strong. In 1919 Nebraska forbade the teaching of any foreign language before the eighth grade (the Nebraska courts exempted Greek, Latin, and



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CULTURAL PLURALISM.

Hebrew, all presumed safely dead). In the 1920s Oregon tried to ban any private schools at all. (Both laws were overturned by the Supreme Court.) In the public schools, Americanization was the order of the day, and prevailed without a check through the 1940s, while the children of the last great wave of European immigration were being educated.

I attended the schools of New York City from 1929 to 1944 (I include the public City College of New York in that stretch), and not a whiff of cultural pluralism was to be found. Americanization was strong, unself-conscious, and self-confident. Although probably two-thirds of the students in New York's public schools were Jewish or Italian, no Jewish or Italian figure was to be found in our texts for literature, for social studies, for history. All cultures but that of the founding English and its American variant were ignored, and students were left to assume, if they thought about the matter at all, that the cultures of their homes and parental homelands were irrelevant or inferior. And that singularly unicultural educational background is having an important effect on the current debates over multiculturalism. For many protagonists in this debate, the conflicts over educating Catholic and, later, German-speaking students, as well as the arguments for multiculturalism in the age of mass immigration, are all a kind of murky prehistory, wiped out in a flood that deposited a uniform silt over our past, leaving only fossil remains of that earlier diversity and those earlier conflicts. Advocates of multiculturalism today often do not know that they had forebears; opponents, that the education they experienced was the expression of an age singularly free of conflict over issues of cultural pluralism.

The arguments for cultural pluralism began to emerge again during World War II, and the motivating force was Hitler. If he argued that one race and one people was superior and should be dominant, then it was in the interest of the war effort to teach equality and tolerance. In the 1940s a small movement for "intercultural education" sprouted. Its aim was to teach something about the various ethnic and racial groups that made up America, and to teach tolerance. Just how extensive it actually was in the

schools is not clear, but it did not survive the 1950s and 1960s, when cultural pluralism was pushed aside by the shock of Sputnik and the issue of desegregation.

Something of a contradiction existed between desegregation, as then envisaged, and cultural pluralism. The aim of black and liberal civil rights leaders was for blacks to get the *same* education that whites received. If whites' education had precious little of cultural pluralism or multiculturalism in it, why should that be changed for blacks? The black objective, through the entire course of the struggle in the courts in the 1940s and 1950s for equality, was assimilation. Blacks should not be treated differently because they were black.

But that was transmuted rapidly into the demand of many militants that blacks must get something different *because* they were black. By the late 1960s a "black power" movement, black Muslims, and other manifestations of black nationalism were already challenging the assimilationist civil-rights leadership. Black schools were started in black communities, and some were even established under the aegis of liberal public school systems (as in Berkeley).

Soon Mexican Americans and Puerto Ricans raised their own grievances against the public school system, and political activists demanded the recognition of Spanish. Civil rights laws that guaranteed equality were interpreted by the Supreme Court to mean that equality for those speaking a foreign language could require instruction in that language; liberal states passed laws giving a limited right to instruction in one's native language, and federal laws and regulations and court decisions made that a requirement in many school systems.

Bilingualism is of course not the same thing as multiculturalism, but it was generally taken for granted that instruction in one's native language for those speaking Spanish also meant to some degree instruction in Puerto Rican or Mexican culture and history. Through the 1970s bilingualism and the acknowledgment of distinctive group cultures and histories in social studies and history spread and established themselves in the public schools.

One might well ask why multiculturalism has become such an important issue today. It has been at least 20 years since public schools started adapting themselves to the presumed cultural distinctiveness and interests of blacks and Hispanics, by modifying textbooks, introducing new reading materials, changing examinations, instructing non-English-speaking students in Spanish for a few years. What has put the issue on the agenda today, not only in the public schools, but in colleges and universities, public and private?

I believe the basic explanation is a build-up of frustration in the black population in recent years over the failure of civil rights reforms to deliver what was expected from them. In the colleges, affirmative action—well established as it is—has not increased markedly the number of black instructors or the number of black students who can qualify for the more selective institutions without special consideration. In the public schools, black achievement as measured by NAEP scores, SAT scores, and high

school completion rates has improved somewhat, but the gaps between black and white achievement remain large. Blacks on the whole do worse than Hispanic groups despite the very large numbers of new, non-English-speaking immigrants, and far worse than the Asian groups. One can record substantial black achievement in politics, in the armed forces, in the civil service, and in some high positions in the private economy, but alongside these successes a host of social problems afflicting a large part of the black population have, by some key measures, grown, not declined, in the past 20 years.

One might have expected that the multicultural debate would be fueled by the large new immigration of the past 20 years. But that is really not the moving force. The Asian immigrants, almost half the number, seem quite content with the education they get. Nor are Hispanic immigrants making demands on the public school system that necessitate radical change. Mexican Americans would like to see their children do better in school, to have more of them graduate. But they have no strong commitment to the idea that this objective will be enhanced by more teaching in Spanish, more Mexican cultural and historical content. Puerto Rican leaders do call for more bilingualism, more Puerto Rican content, but they do not approach the militancy of black advocates.

In short, I do not believe we would see the present uproar over multiculturalism were it not for the frustration among blacks over widespread educational failure, which leads them to cast about for alternatives, new departures, new approaches, anything that might help, including special schools for black boys featuring an Afrocentric education.

What Is the Goal of Multiculturalism?

For the critics of multiculturalism, the issue that ultimately determines its acceptability is a judgment as to the underlying purpose of the curriculum reform. Is it to promote harmony and an acceptance of our society? Or to portray our society as so fatally flawed by racism, so irredeemably unfair and unequal that it must be rejected as evil? The critics fear that the second vision underlies the strong multicultural position. On one level, they are right. But if we look more deeply into the objectives of those who promote a strong multicultural thrust, and who in doing so present a somewhat lopsided view of our history, we will find that they promote multiculturalism not because they aim at divisiveness and separation as a good, not because they—to put it in the strongest terms possible—want to break up the union, but because they aim at a fuller inclusiveness of deprived groups. In the short term, their vision may well mean more conflict and divisiveness, but they see this as a stage on the way to a greater inclusiveness. They are no Quebec separatists, Croatian nationalists, Sikh or Tamil separatists. They seek inclusion and equality in a common society.

Critics of the new multiculturalism will see my judgment as far too benign. Undoubtedly one can point to some leading advocates of multiculturalism whose intentions are not benign. Leonard Jeffries, for

example, would like to accentuate the split between Jews and blacks, and both Jeffries and Asa Hilliard III would teach a racial interpretation of history, reviving the worst of 19th-century racist anthropology. But I would emphasize that we deal with a spectrum of views in multiculturalism, some mild enough to gain the endorsement of Ravitch, Schlesinger, and Shanker, and some as extreme as those of Jeffries or Hilliard. In the middle there is much to argue about.

The Constitution: Stability amidst Change

What sort of students do multicultural schools turn out? The Catholic schools of the mid-19th century, so fearful to many as a threat to national unity, produced Americans as patriotic or more patriotic than the norm. Nor did the German-language schools do badly in molding upstanding Americans, though equally upstanding Americans were doing their best to stamp out those schools. Even Amish, Hasidic, and Black Muslim schools, while I do not know whether they produce patriots, turn out, I think, citizens as good by many measures as the public schools. Our diversity has one major binding force in the Constitution under which we live and which still, through the procedures that it first laid down and that have been further developed in our history, governs at the margin what we can and cannot do in our public schools. The Constitution guarantees that Amish children need not attend schools after the age when their parents feel they will be corrupted, and that Mormons and Black Muslims can teach their own version of the truth, which is as fantastic to many of us as the furthest reaches of Afrocentrism. Even the most dissident call on the Constitution for protection, yet few people are ready to tear it up as a compact with the devil. This common political bond keeps us together—nationalists and anti-nationalists, Eurocentrists and Afrocentrists—and may continue to through the storms of multiculturalism.

No question, America's educational system has changed since the middle of the 19th century and since the days I went to school—and is changing ever faster. Today's multicultural debate has a different edge to it than some of America's earlier school wars.

America too has changed. It is not God's country anymore. We can lose wars—real ones—and we can be beaten in economic competition by the Japanese. We have become only one of a number of economically powerful, democratic countries, and not in every respect the best. And America exists in the larger reality of the non-Western world. A good deal of that world is sunk in poverty and political disorder, but some of it is teaching lessons in economic effectiveness to the West. Western hubris can never again be what it was in the late 19th and early 20th centuries.

Finally, America's population is changing in its racial and ethnic composition. Its values are changing. Its notions of the proper relation of groups and individuals to the national society are changing. As hard as it may be for veterans of the educational system of earlier decades to wrench free of their own schooling, it is even harder to see how such a system can be defended in the face of these changes. ■

FAKE BLOOD Why Nothing

Martha
Bayles

The first congressional hearings on media violence were held in 1954; the most recent, last spring. During the intervening four decades, social scientists were developing new and better ways of studying the problem; the makers of media violence, new and better ways of destroying the human body on screen. Yet every time Hollywood and Washington sit down to debate the violence issue, no one seems to have developed a new and better way of understanding it. In particular, the current debate pays too little attention to the dramatic changes in American media—and culture—since 1954.

Until recently, the social-scientific research has focused on the short-term effects of violent entertainment, such as higher rates of physical aggression in children exposed to television violence in a laboratory setting. Researchers could only speculate about long-term effects, such as criminal behavior. So entertainment industry leaders have responded by dancing a familiar two-step: first, insisting that the research is wrong, that television violence really has no impact; and then, embarrassed either by the data or by their manifest faith in the power of the medium to sell products, adding that if violence does have an

impact, it's probably positive—"a release of built-up tension," as Disney president Michael Eisner puts it.

Now, however, several recently published longitudinal studies suggest a link, perhaps even a causal one, between an entire population's exposure to television violence and its propensity toward violent crime. The best known study, reported in both the *Journal of the American Medical Association* and the *Public Interest*, was conducted by Brandon S. Centerwall of the University of Washington. Centerwall found that, controlling as well as possible for other variables, the homicide rate among whites in the United States, Canada, and (most recently) South Africa doubled over the 10- to 15-year period after the advent of television, with its standard violent programming fare.

In response, industry leaders are changing their tune. The four networks (ABC, CBS, NBC, and Fox) and 15 cable channels have agreed to label programs containing a high degree of violence. And many executives and producers who once opposed the Motion Picture Association of America ratings system, which classifies movies as G, PG-13, NC-17, R, and X, now defend it as the best way to keep violent material off-limits to children. Indeed, many industry leaders point out that



Gets Done about Media Violence

they, too, are parents. As ABC programming chief Ted Harbert commented, his three-year-old daughter Emily "totally changed the way I look at television."

Censorship vs. Regulation

It must be said, however, that these leaders do not support labeling because it works (in a moment we shall see why it doesn't), but because they are terrified of "censorship." Their fears are not groundless: Hollywood's most outspoken critics, from the Reverend Donald Wildmon on the religious right to Professor Catherine MacKinnon on the feminist left, have proposed expanding the legal definition of obscenity (as laid down in the 1973 Supreme Court decision *Miller v. California*) to include everything from Satanic rock lyrics to television dramas about rape. Civil libertarians and free marketeers still deplore legal censorship in any form. But a surprising number of voices, both liberal and conservative, support it.

Yet legal censorship is unlikely to have any effect on violence in the modern electronic media. The end product of a long battle over obscenity in the print media, *Miller* is exceedingly narrow. It exempts everything with the least claim to "serious literary, artistic, political or scientific value" and confines itself to sex, all but ignoring violence. It is also spottily, even arbitrarily, enforced. As both Wildmon and MacKinnon have discovered, decades of First Amendment precedent block any attempt to reclassify media violence as unprotected speech. Thus, the most effective anti-violence activists reject legal censorship in

favor of "corporate responsibility." Tipper Gore, for example, took a visibly anti-censorship stance in her famous mid-1980s campaign against sadistic rock lyrics. Yet, as her critics hastened to point out, her approach was hardly anti-regulatory. Indeed, it carried the clear implication that "irresponsible" corporations would invite the wrath of the Federal Communications Commission. As a veteran of Action for Children's Television, which succeeded in regulating violence on Saturday-morning cartoons in the 1970s, Gore's push for voluntary labeling was backed by veiled threats of an FCC crackdown.

Today's anti-violence activists also pin their hopes on regulation. Many are doctors, psychiatrists, and teachers, who tend to see violent entertainment in the context of public health, as a harmful commodity, like cigarettes. Hence their often unquestioned assumption that once the harmfulness of this particular commodity has been scientifically proven, the government has every right to yank it off the shelves.

If these activists do not see FCC regulation as censorship, it's for a good reason: the First Amendment freedoms hard won by the print media have yet to be extended to their electronic counterparts. Indeed, the history of the latter is fraught with government oversight, predicated on the belief that broadcast spectrum, unlike paper and ink, would always be a scarce resource. As Itiel de Sola Pool has written, the electronic media first gained ascendancy as "great oligopolistic networks of common carriers and broadcasters," sufficiently different from the print media that "regulation was a natural response."

Martha Bayles, former television critic for the Wall Street Journal, is the author of Hole in Our Soul: The Loss of Beauty and Meaning in American Popular Music (Free Press, 1994).

ILLUSTRATION BY ELIZABETH WOLF



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Free Media, Free Markets

But as the entertainment industry well knows, those same "oligopolistic networks" are rapidly becoming obsolete. Even if the FCC restricted violence on network television, the torrent would continue through other media outlets, notably cable. Unlike broadcast spectrum (itself less scarce than was first supposed), cable is potentially unlimited. To de Sola Pool, this means that cable should be as free and unregulated as print—a proposition that makes perfect sense until it collides with worries over what cable is carrying into the American home. Like movie theaters, most cable outlets display MPAA ratings. But that doesn't keep violent movies such as *Die Hard* and *Friday the 13th* from reaching children. With 62 percent of all American homes that have television now cabled, most of our children live in a wide-open media environment beyond the reach of existing regulatory mechanisms. Few video stores prevent children from renting R- and even X-rated features. And there is always MTV, with its fusillades of kinky, titillating, often sadistic images.

What is more, looming technological changes, such as interactive multimedia, fiber-optic "information highways," computer bulletin boards, and home satellite services, promise an even more wide-open future. As de Sola Pool sees it, government should get out of the regulation business altogether—or risk eroding freedom of speech in all media, print included. The "era of the giant media," he warns, "has embedded a permanent set of regulatory practices on a system whose technical characteristics would otherwise be conducive to freedom."

Our dilemma is profound. On the one hand, mounting social-scientific evidence impels us toward some kind of regulation, if not censorship, of media violence. On the other, the media are becoming harder to monitor, much less regulate or censor, without unacceptably draconian measures. Ironically, the same untrammelled flow of electronic information that helped liberate the Eastern bloc is also flooding our homes with bloody brutality.

For libertarians and free marketeers, the solution is clear: stand back and let the free market do its thing. After all, a 1992 Associated Press survey found that 82 percent of Americans feel that feature films are too violent, and a 1993 Times Mirror poll found that 72 percent feel that entertainment television has too much violence. Surely the weight of this public opinion will make itself felt in the marketplace? Some argue that the proposed "v-chip," a device allowing viewers to block out violent programs, will be the free-market solution to the problem.

But the "v-chip" might backfire by increasing the violence in feature films, especially the "action" blockbusters that are so easily promoted and sold overseas, where half the film industry's profits are now made. And, domestically, the market for "action" films, in both theatrical exhibition and video rental, is not the polltaker's random sample of the American public, but a specific segment—young people—whose tolerance for media violence is doubtless higher. Such competing market forces paint a darker scenario.

A recent report of the American Psychological Association suggests that, along with increasing aggres-

sion, exposure to media violence increases "fearfulness about becoming a victim of violence," "callousness toward violence among others," and "self-directed behavior that exposes one to further risk of violence." In other words, people habituated to media violence show signs of becoming habituated to the real thing. These effects cannot be definitively proven, but they stand to reason. At the very least, they raise doubts about the market's assumed benevolence.

The fact is that market forces are neither benevolent nor malevolent, but neutral. The market amplifies, magnifies, and multiplies the cultural trends of the moment; it does not create them. This point is lost on those who, reversing the libertarian position, blame the profit motive ("greed") for all that is wrong with popular culture. Forty years ago, the profit motive was blamed for the *avoidance* of sex and violence—for television shows depicting married couples sleeping in twin beds, or movies tacking happy endings onto the plots of tragic novels. Today, greed is blamed for the *indulgence* in sex and violence. Instead of using a constant (the profit motive) to explain a variable (the amount of sex and violence), why not use another variable—namely, the deeper cultural changes that have occurred over the same period?

The Heart of the Problem

Most parties to the present debate would rather not talk about culture, preferring to stick with the hard facts gathered by the social scientists and the hard choices facing the policymakers. But playing it safe will only stymie the debate, because, although violent entertainment is manufactured, bought, and sold as a commodity, it is also a form of artistic expression, however debased. Like all popular culture, it claims our attention in ways that are always tangentially, and often directly, related to the claims of art. We simply cannot avoid this dimension of the problem.

Indeed, the anti-violence activists pay a price for avoiding it. Underlying their cause is a deep moral and aesthetic revulsion at the constant barrage of violence. But like most of us, they hesitate to act solely on the basis of such "subjective" feelings. Hence their reliance on "objective" social-scientific data. Yet the methods used by social scientists tell us little about the dramatic or artistic uses of violence. Instead, they skew the discussion in the direction of "content analysis"—that is, of tallying up violent incidents without regard to context, as though they were quantifiable toxins. The danger of this approach is that it will founder on sheer philistinism. For example, if some researchers get their way, the "v-chip" will block out all violent incidents, regardless of whether they occur in *The Civil War* or *The Texas Chainsaw Massacre*.

Needless to say, such philistinism is ripe pickings for Hollywood's "creative community," whose typical response to anti-violence activism is to seize the high ground of "art" against all those lowbrows who think movies should be judged on either a social-scientific or a moral basis. Invariably the activists are reduced to stammering, "Gosh, we don't know very much about art, but we know what we don't like."

The creative community doesn't know much

about art either. But it does know that ugly, gratuitous violence has an artistic pedigree, reaching back to such avant-garde movements as expressionism, futurism, dada, surrealism, the Theatre of Cruelty, and "happenings." Beginning in the late 1960s, this European aesthetic of shock entered American popular culture when "fringe" comedians, filmmakers, and rock performers such as Lenny Bruce, Andy Warhol, and Frank Zappa sought to outrage, rather than please, their audiences. Now it is part of the mainstream, as luminaries from David Lynch to Ice T, Oliver Stone to Madonna see the sole purpose of art as "pushing out the envelope," being "in your face," or, as Baudelaire urged a century ago, "shocking the bourgeoisie."

Dropping an avant-garde name or two gives Hollywood a huge, if undeserved, advantage over its activist critics. After all, who wants to be bourgeois? This is precisely why the battle must be joined on cultural grounds. The irony is that most Hollywood poseurs are only a tad less philistine than their critics. Scratch the surface, and you'll find precious little awareness that the aesthetic of shock is not the sum total of modern art.

The worst thing about the shock aesthetic is that its ultimate target is genuine art. More than anything, it provides a refuge for the mediocre and untalented—as when the poseurs complain that nonviolent films would be "safe," "bland," and "boring." As many critics have noted, the heavy hand of the old Production Code, initiated by the major studios in 1920 and administered through the "Hays Office" between 1934 and 1966, hardly stifled the creation of classic films. Indeed, the so-called Golden Age of Hollywood came in the late 1930s, when the code was at its strictest.

Taking on the Philistines

When the major studios broke up, so did the Hays Office—more evidence for de Sola Pool's argument that regulation is "natural" only when the media are structured as an oligopoly. To be sure, the Hays Office was not a government body. But its effectiveness, like that of the MPAA ratings or the measures being proposed by the networks, depended on centralized power. Anyone who is serious about controlling contemporary media violence should forget about the television networks, which are suffering a fate similar to that of the great Hollywood studios, and focus on those areas where power is still centralized.

One such area is trade policy, where television and film companies appeal to the Office of the U.S. Trade Representative to batter down the import barriers erected by foreign governments, some for cultural reasons, others out of pure protectionism. But the motives of the foreign governments are beside the point. The real problem is that our government, while threatening to restrict media violence at home, is pushing to open markets for it overseas. The anti-smoking lobby has protested this strategy with regard to tobacco. But, although the motion picture industry has featured prominently in the latest round of multilateral trade negotiations, the anti-violence lobby has raised no outcry.

Another area neglected by the anti-violence activists is funding for the arts. In recent years, the National Endowment for the Arts has become a stomping ground for everyone who would sermonize about the state of American culture. Yet regrettably, most of these circuit-riding highbrows ignore the connection between the aesthetic of shock as practiced by a handful of "cutting-edge" NEA grantees and popular culture's cult of brutality and obscenity. Or, if they note the connection, they blame popular culture for having debased art, instead of the other way around.

If the elites are confused, the public must be bewildered. The admirable impulse of the anti-violence activists is toward "prevention" at the grassroots, and the efforts they mount, from public-service advertising campaigns to anti-violence counseling in the public schools, are commendable. But again, something is missing. By defining violence as an "epidemic," and focusing only on its negative consequences, these efforts ignore its aesthetic attraction—in a word, its stylishness.

In the suburbs, the stylishness of violence is still largely a decadent fantasy. In the inner cities, it has become a death-dealing reality. Yet in both settings, young people desperately need to be educated, not just about the physical damage done by bullets, but about the psychic damage done by the seductive voices of popular entertainers who know how to sell shock. This is why, even at the grassroots, the problem must be addressed in cultural terms.

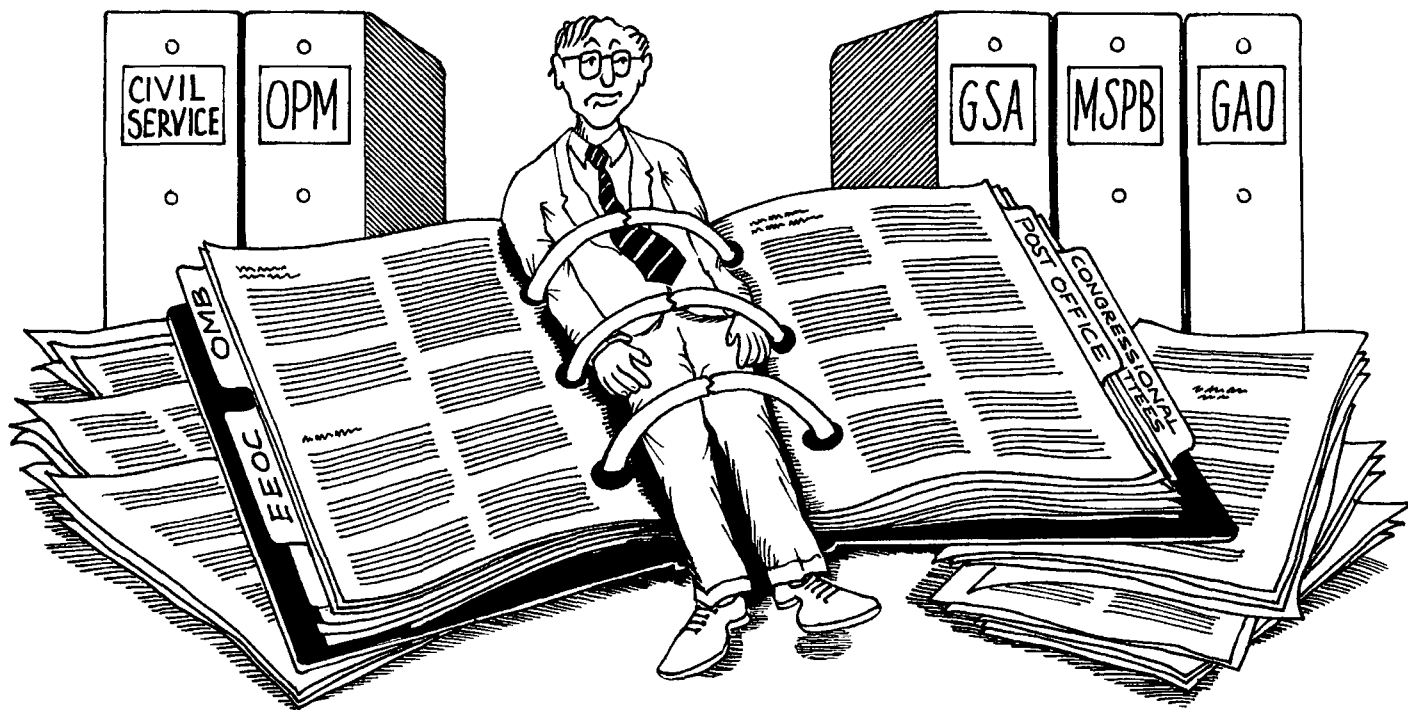
How to do this? In the inner city, the lead has been taken by religious leaders. But although clergy are better equipped for the job than social scientists, they cannot reach all of the most vulnerable. In recent years, the debate over educational reform has focused on the need to set "world-class standards" in key subject areas, such as math, science, and English. Art should be added to the list—not because it is "uplifting" (the usual genteel reason), but because it is, in the present context, degrading. A truly "world-class" arts curriculum would teach that "gangsta rap" comes out of the stale avant-gardism of British punk as much as out of Afro-American music, and that the antics of "hard-core" rockers and "shock-jock" comedians are anything but original. A proper introduction to art history would enable young people to resist the forces that make hatemongering and sadism look stylish.

The most passionate voices now being raised against media violence are those of the public-health activists. Their grassroots campaign is commendable, but their faith in regulation is, at best, misplaced, and, at worst, the harbinger of a possible backlash against the hard-won freedoms of all media, new and old. Meanwhile, their campaign is doomed to sputter out in frustrated censoriousness, because they cannot tackle the essential cultural problem. Too often, the critics of media violence allow themselves to be intimidated by charlatans wrapped in the protective cloak of "art." It is high time we ripped off that cloak and exposed the philistinism underneath. Otherwise, the aesthetic of shock will continue to provide the spiritual fodder for our children's self-destruction. ■



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DEREGULATING the FEDERAL SERVICE

Is the Time Finally Right?

Calls to unburden the federal manager of gratuitous and counterproductive regulatory constraints governing personnel, budget, and procurement decisionmaking go back at least a decade. They are a staple of the expert's and insider's critique of government, but remain insufficiently answered by action. Recent changes, both political and economic, simultaneously raise the stakes for continued failure to give federal managers a freer hand in doing their jobs and present a rare opportunity for reform.

The stakes are raised because strong performance by federal managers has taken a quantum leap in importance to the American economy. Not only has the Clinton presidency ratcheted up the degree of federal intervention in the domestic economy—the list of regulatory initiatives in its first few months alone ran to five single-spaced pages—but American business confronts intensified global competition. Now more than ever, economic growth is either assisted or impeded

Constance
Horner

by the quality and character of government action.

At the same time, if longstanding barriers can be overcome, the opportunity for reform of federal management practices is greater than at any time in the past decade and a half.

The Political Context

As the Ross Perot campaign showed, public demand for better government, however defined, is strong, and the public is newly attentive to the *processes* of government. Public attentiveness is a *sine qua non* of congressional willingness to act. President Clinton, with only 43 percent of the vote in 1992, not only must make a record of reform to respond to Perot supporters' demands, but also needs to defend his reputation as a "New Democrat" with the "reinventing government" element within the Democratic Leadership Council. Public employee unions that have historically opposed any reforms designed to cut employee pay or

work force size or expand managerial discretion can continue to do so only at the expense of a Democratic party president whom they supported for election and a majority Democratic party Congress trying to work with that president. At the least, the unions must be somewhat more open to negotiation than they have been through two Republican presidencies. By the same token, Congress cannot now “just say no” to reform proposals, as they have in recent years.

Raising the stakes even further is the president’s assignment of Vice President Albert Gore to the task of conducting a “national performance review” of the federal government to produce recommendations for reform. It is a major, much-hoopla’ed assignment for Gore.

The political stars, then, are aligned for change—perhaps even for a grand bargain. But there is nothing automatic about the prospect. “Reform” means different things to different people, and the substantive and political barriers that have deterred it in the past—of which more later—remain in place. Moreover, entirely different, and contradictory, approaches to reform are competing to satisfy differing political needs. Bureaucrat-bashing rhetoric and budget-cutting proposals reminiscent of the best of Ronald Reagan have marked the Clinton presidency to date, and Congress has proceeded after a period of confused quiescence to adopt its traditional posture of aggressive support for employee interests and opposition to presidential budget proposals.

Nevertheless, it is early days, and several budget and legislative cycles remain in this presidential term. There is time for learning and self-correction. But for reform of the systems surrounding the federal manager to succeed, strategies must be developed that meet diverging political needs but are not in conflict with one another. That will be difficult but can be done.

What Ails Government?

Before devising the criteria for such strategies, the first order of business must be to develop a clear diagnosis of the regulatory ailment and the best treatment for its relief. (There is no cure.)

Senior government bureaucrats, though perhaps somewhat more risk-averse than some private sector managers, are as competent, hardworking, creative, and motivated toward superior performance as any American executives. But as they strive to perform such vital services as air traffic control, food inspection, criminal justice, environmental cleanup, and drug control, they are trapped in systems that defy excellent performance.

Federal managers, for example, have little discretion in making personnel decisions. Only with difficulty can they use pay to reward and retain good employees. Status on the basis of seniority remains the dominant ethos of civil service administration. Nor are managers free to use compensation to attract talent. By and large, they can’t decide how many people to hire, for what jobs, at what salary levels. Except for the Department of Defense, which Congress has exempted from personnel ceilings, the Office of Management and Budget decides how many people an agency needs—and sometimes where to put them.

The Federal Employees Pay Comparability Act of 1990 gave managers somewhat more discretion about pay. In certain circumstances it permits managers to grant bonuses to attract and keep good employees. It also permits hiring entry-level employees at any pay level in the entry-level range, not just at the bottom of that range. But it remains to be seen how far agencies will go in actually permitting the use of this discretionary authority. The impetus for the legislation was clearly to increase pay, not management discretion in its award.

Another source of frustration for managers is the civil service job classification system, which has more than 700 occupations, 18 grades, and 10 steps a grade. Managers spend hours negotiating with agency personnel specialists over the proper placement of jobs and employees. It takes 73 pages of rules to classify—and therefore determine the pay of—a secretary.

Taking disciplinary action against employees who are not performing well also means coping with protracted and complex procedures, including agency appeals, union negotiated arbitration, Equal Employment Opportunity Commission determination, and the federal courts. One (typical) case took more than *five* years to move through the appeals process following dismissal of a postal employee who had worked for the government for less than *four* years.

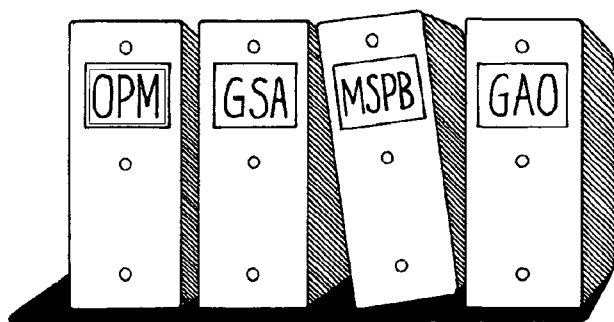
The process for awarding procurement contracts for work and equipment also ties managers in knots. The federal government undertakes about 70,000 contract actions, involving 250,000 firms and 150,000 federal workers, every day. Awarding those contracts takes so long and requires so many levels of “clearance” that technology is often out of date by the time it arrives or doesn’t match equipment in other units. The FAA’s \$4 billion system to modernize its air traffic control computers, for example, is now scheduled for delivery three years late. Outstanding contractors are lost because they can’t wait or don’t meet often unreasonable requirements.

Finally, federal managers often have no firm idea what their annual budgets are until the fiscal year is almost over. Agency leadership must either withhold spending until the last minute or move it around in a kind of agencywide shell game. Even when agencies know their budgets, managers cannot allocate funds according to their judgment about priorities. Instead, OMB- and agency-imposed personnel limits and congressional micromanagement hamstring their decisions and prevent sound administration.

In short, the regulations and requirements of the civil service system, while well intentioned and designed to preclude unfairness or error, have led to an administratively moribund system that makes the exercise of human judgment and discretion all but impossible. To be effective, public sector managers, like their private sector counterparts, must be able to make key decisions over personnel and budget. They must be able to move employees from jobs they can’t do to ones they can, to award a contract for two weeks’ work in less than three months’ time, to hire another secretary or another electronic engineer, whichever is more needed, without subjection to petty harassment by rules and clearances.

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If longstanding
barriers can be overcome,
the opportunity for reform
of federal management
practices is greater than
at any time in the past
decade and a half.



Can the Bureaucracy Be Deregulated?

Defining public management as “a world of settled institutions designed to allow imperfect people to use flawed procedures to cope with insoluble problems,” James Q. Wilson has cautioned against finding “Big Answers” to problems such as those I have been describing. But small answers have already been found, and the results are encouraging enough to warrant considerably more.

In 1978 Congress passed civil service reform legislation that established the Senior Executive Service, affirming the concept of flexible work assignments and reward related to performance. These 7,000 executives provide a prototype for autonomy accompanied by accountability. Sitting atop many of the government’s largest and most sensitive functions, they are accountable to the political leadership of their agencies for implementing policy. If they succeed, they can be awarded large bonuses and advancement. If they fail, they can be removed—and sometimes are. A modified regime of the same sort can and should be implemented throughout the ranks, proportionate to level of responsibility. Increased autonomy is not a serious threat to the job security of supervised employees if the proper measures of accountability, such as clear goals and performance standards, are in place in a culture that honors accountability and can react to success and failure with action.

Even more reassuring evidence that change is possible is the ongoing “China Lake” experiment undertaken by the Department of Defense and the Office of Personnel Management during the 1980s. The Naval Air Warfare Center at China Lake in the Mohave Desert was engaged in crucial research and development—of the Sidewinder and Skipper missiles, as well as undersea surveillance and weapons systems and Arctic submarine warfare—but could not get or keep personnel of the highest quality. Working with OPM, the Navy put in place a radically simplified system for defining jobs and hiring, promoting, and paying workers that put managers more in charge of the work they’re accountable for.

The new system grouped 120 occupational series into a few broad career paths. It replaced the 180-step compensation schedule with four to six broad pay bands. Managers could move strong performers up within these bands or into different jobs without regard to rigid seniority or classification rules. It also replaced the personnel office’s dream job descriptions with a short list of job elements *managers* could use. It introduced an element of market-based pay at the entry level so managers could compete with the private sector for quality recruits, and it based all pay increases on performance.

How have these revolutionary practices—that are common and everyday in the private sector—worked? As James Wilson sees it, they have been a resounding success. As “the guerrilla warfare between personnel offices and line managers ended,” Wilson notes, the turnover rate of strong performers began to fall. Management and employee morale went up (and stayed up). Recruits now boast much more distinguished college records, and managers spend less time on personnel matters although they make more of the decisions.

In 1987 the Reagan administration submitted to Congress the Civil Service Simplification Act, which would have instituted the China Lake reforms, voluntarily, gradually, and cost-neutrally throughout government. In the classic Washington parlance, the bill was dead on arrival. Unions feared further erosion of their power. Congress feared loss of union support and was also unwilling to back away from its politically rewarding micromanagement. OMB worried about loss of budget control and higher costs.

The objections to granting greater discretion to federal managers are sincere and substantive, as well as illegitimate and purely political. Without an obvious or automatic bottom line, will managers grant performance-based pay increases too easily? Will costs spin out of control? Will managers be unfair in their compensation decisions, favoring friends rather than good performance?

Evaluation of pay experiments à la China Lake suggests that although total costs *can* go up, they need not. Whether they do depends on proper system design, especially on the use of a “manage to payroll” approach that allows managers more discretion over pay and employee skill mix but within a fixed overall payroll budget. Evaluation of these experiments also suggests that employee worries over fairness did not increase as a result of enhanced managerial power to set pay levels differentially among employees.

Political Barriers to Reform

But even if substantive concerns can be overcome by experimental evidence and system design, political barriers remain.

One is the simple fact that internal government reform has historically had little political payoff. Both presidents and members of Congress make stabs at reform through commissions and hearings, but rarely are they willing to spend the political capital necessary to get results from reforms that are hard to explain to constituents and the public.

Another political barrier is the intense, longstanding, and understandable opposition to reform by public employee unions. Recognized by a Kennedy administration executive order that prohibited bargaining over pay, unions must generate support through other means of defending workers’ interests—grievances over workplace conditions, for example, and appeals of disciplinary action. Any increase in managerial discretion erodes their already thin powers. And union opposition generates congressional opposition. Every congressional district in the nation has federal workers; some have many—and those that do have congressmen in the thick of any action on Capitol Hill involving government operations.

A Strategy for Deregulating

A successful strategy for reform must meet the political needs of all parties: for the president, cost-cutting and efficiencies to save taxpayer money and redesign of government’s internal workings to appeal to “reinventors”; for the unions, strengthened bargaining power; for Congress, cost savings without loss of too much union support or oversight opportunity.

Can this be done? A case can be made for a series of trade-offs that would work over the course of the next three years. Just as the president has relinquished, or reduced, other budget goals as part of negotiated agreements, he could satisfy his own, union, and congressional interests by reworking the method by which he proposes to achieve work force budget reduction goals.

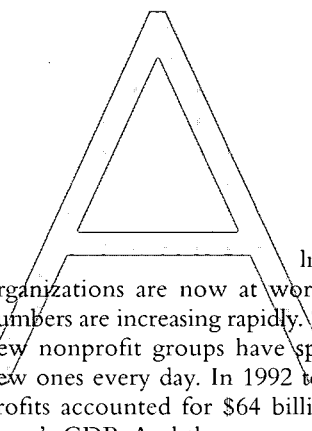
Rather than across-the-board administrative cuts and work force reduction by attrition, for example, the president could “reinvent” government *and* achieve savings by getting agreement to free federal managers to achieve that task with him, by strengthening their powers to help design the work and work force they supervise. Yes, the public wants a smaller, cheaper bureaucracy, but it is indifferent to the means to get it. Union fears of management abuse of employees could be addressed by stronger, written performance goals and systematic identification of the means to achieve them—a good idea anyway—with unions sitting at the table in consultation with management as goals are established. That opportunity, combined with some reduction in employee benefit cuts—explicitly identified as part of the deal—in the inevitable next round of such cuts could win union concurrence in strengthened management powers. And Congress would have these written goals—and identified means—available as a basis for judging agency and management performance in lieu of “process” regulations.

But this strategy could work only if the president wants reforms of the sort outlined here badly enough to negotiate to get them and only if union demands for participation do not end up tying management hands every bit as much as the regulations a negotiated agreement would allow them to escape. Two big ifs, but worth testing.

At least two options are available to an administration interested, as Clinton and Gore may well be, in achieving sustainable and major reform. One is to expend what might appear to be a disproportionate amount of political capital and energy in a grand, legislated redesign of the way government works, involving a commensurately large bargain among the interested parties. If accomplished, such a redesign would be truly historic. It would take about five years to implement. The payoff to the public in improved effectiveness and efficiency would begin to appear around 1999. That would be a nice turn-of-the-millennium contribution to the national well-being, but it is not the stuff of near-term political utility.

The second option presents a politically easier, but still valuable alternative or fallback. That option is to ask Congress for expanded experimental authority to put the China Lake and other reforms in effect broadly but “experimentally” in selected agencies throughout government—something short of governmentwide and permanently. All parties to such an undertaking could realize the identifiable political advantages outlined above, but none would be required to relinquish their powers without recourse to a revisiting of long-standing issues of concern if needed.

There is something to be said, after all, for having confidence that a good idea, if not squelched by inaction or overreaching, will prevail in time. ■



Almost 25,000 nonprofit organizations are now at work in Japan, and their numbers are increasing rapidly. Since 1988 some 2,000 new nonprofit groups have sprung up—roughly 2 new ones every day. In 1992 total spending by nonprofits accounted for \$64 billion, or 2.7 percent of Japan's GDP. And the unprecedented growth of the nonprofit sector—groups devoted to education, health care, social welfare, the environment, culture, development aid, and international exchange—is generating more than money. It is awakening Japanese citizens to the possibility of new ways of relating to their government and the private sector—and eventually to the outside world.

The American Model and the Japanese Variation

In the United States, creating a tax-exempt nonprofit organization is relatively easy. Some 33,000 foundations and more than a million other nonprofit groups exist. According to Peter F. Drucker, in *Managing the Non-Profit Organization: Practices and Principles*, the nonprofit sector is "America's largest 'employer' . . . with every second American adult serving as a volunteer . . . and spending at least three hours a week in nonprofit work." Among the chief roles of those organizations and volunteers is to keep an eye on the government and make sure citizens' voices are heard by policymakers at both the local and federal level.

Japan's nonprofits face a more uphill existence. Most contributions to nonprofits, for example, are not tax-deductible. The only contributions Japanese citizens can deduct are those made to the local and national governments; specific organizations, such as the Japanese Red Cross, designated by the Ministry of Finance; educational institutions; public welfare institutions; and political parties and their local support

groups. In 1990, only 600 groups were allowed to receive tax-deductible contributions. And even donations to these groups are deductible only up to 25 percent of a donor's income.

Corporate contributors fare slightly better. As long as a company donates to one of the designated tax-exempt organizations, it can deduct its entire gift as a loss. To other nonprofits, companies can deduct contributions up to 0.1 percent of the sum of capital, capital reserve, and income.

In addition, nonprofits can be organized only with governmental permission. A group wishing to arrange international educational exchanges, for example, must be approved by the Ministry of Foreign Affairs; one with an environmental mission, by the Japanese Environmental Agency. Groups must have a certain level of assets to qualify for nonprofit status, and, once established, are subject to governmental regulation and monitoring. In fact, the government's hand is so heavy—it approves each nonprofit's budget and its use—that many civic organizations never bother registering with the authorities despite the financial disadvantages of not having the tax-exempt status.

Indeed, most Japanese nonprofits have the look and feel of government agencies. And no wonder. Many serve as a rest stop for government ministry officials on their way to retirement through *Amakudari*, or "descending from heaven." Even many nonprofit employees who have not first worked for the government see themselves as *de facto* government workers rather than as part of an organization that challenges the government to try alternative approaches to existing problems. As yet, for the most part, nonprofits have no wish to pose a threat to or to offend the government.

YUKO
IIDA
FROST

A KEY TO

JAPAN'S NONPROFIT



Growing Community Spirit

Despite these impediments, the nonprofit sector is beginning to come into its own. Voluntarism, once regarded as the domain of women and retirees, is attracting the interest of increasing numbers of younger people, right out of college, who see nonprofits as attractive career alternatives to large corporations and the government. Nonprofits that work in developing nations are being inundated with more volunteers than they can use.

Japanese nonprofits are also becoming more innovative. One popular idea developed in response to Japan's aging society is a system for volunteers to record the hours they work helping senior citizens and "save" them to be claimed as the volunteers grow older and need help. Chikara Hotta, the idea's pioneer, has started a nationwide volunteer registration system using an on-line database by which anyone can "deposit" or "withdraw" time for volunteer activities.

The private sector too has responded to contemporary social needs by establishing more nonprofit foundations, which provide support to all kinds of cultural, educational, and scientific projects at home and abroad. Since 1988 the number of corporate foundations has grown from 340 to 500. Many corporate giants have also learned, from experiences in the United States during the past several years, the importance of community service and integration into the local community. What began as a strategy important to successful business operations abroad has been exported back to Japan as a new spirit of corporate philanthropy. Total giving by Japanese companies in fiscal year 1991 was about \$1.5 billion.

One reason for the increased civic mindedness in Japan is that Japan's economy has matured enough for ordinary citizens to feel confident in their power

and comfortable extending a helping hand beyond their family and immediate neighbors. Many Japanese are particularly concerned about the plight of foreigners who come to work in Japan, often at construction sites, without any health insurance. A few years ago, for example, a group of Japanese doctors in Yokohama began providing free medical care for such workers.

In a subtle rebellion against their government, the Japanese are beginning to organize to fix their own social ills. For example, a group of volunteers, dismayed by generous government spending for overseas development when Japan's own domestic social infrastructure is poor, held a demonstration at the elevatorless Tokyo Station in support of better access to public transit for the handicapped. And some citizens have sued the government to make their contributions to nonprofits tax-deductible.

Nonprofits and Japan's World Role

So long perceived, by Japanese and non-Japanese alike, as rigidly conformist and monolithic, Japan may soon have its own Ralph Naders fighting for consumers' rights, its own Nature Conservancy protecting the natural environment from industrial degradation, its own Save the Children sending volunteers to help feed starving children in Somalia. Already, Japanese volunteers work throughout the world under the United Nations and the Japan International Cooperation Agency. As the nonprofit sector develops, more people will be able to get involved in volunteer work without direction from the Japanese government.

If the nonprofit sector can declare its independence from the government, it could transform Japan, pushing it beyond simple economic success to become an open society connected with the rest of the world. ■

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OPEN JAPAN?

SECTOR ON THE MOVE

A Renewed Security

THE UNITED STATES AND THE EUROPEAN

CATHERINE
MCARDLE
KELLEHER

The United States and Europe are at a critical turning point in the definition of their security partnership. After the fall of the Berlin Wall, most Americans assumed that the existing transatlantic security system could—and should—meet any challenges offered by the emerging world order. After all, since the mid-1960s NATO had become in effect the permanent diplomatic conference for the North Atlantic region. To many Europeans, however, the dramatically changing world situation breathed new life into efforts, admittedly sporadic and futile, since the end of World War II, to fashion a common European defense identity and to go beyond Europe's past dependence on the United States for security. The crisis in Yugoslavia has shaken both beliefs. What is now the common conception of security? What is the commitment on both sides of the Atlantic to multilateral action in the interests of peace and security?

The run-up to the NATO Summit now set for next January will be a critical time for policy choice but also for American leadership. European elites are distracted by deep recession, weak governments, the failures to meet the Maastricht milestones toward political and economic union, and the continuing adjustment to a united Germany. The Clinton administration has its own distractions—the pressing domestic agenda of health care and economic revitalization, a people awaiting a long-postponed peace dividend, and a Congress increasingly turning inward. But the time to establish a new vision for a renewed European-American security partnership, to define the parameters for a renewed cooperative security system that limits offensive forces, ensures transparency, and provides for collective action, is now.

The Twin Requirements for Security

The first task will be to rediscover the interrelationship of economic and military security. Much of the recent debate over European-American security, for example, has tended to cast NATO and the European Community as alternative security systems. In fact, as originally conceived (and as they have functioned practically for decades), they were actually interdependent institutions within a common security vision. From the outset, Americans and Europeans viewed security as having both military and economic requirements. The direct threats, especially in the first decade after World War II, were seen as Soviet expansionism and a German military renewal. But the most fundamental fear was of a return to the dangers of the

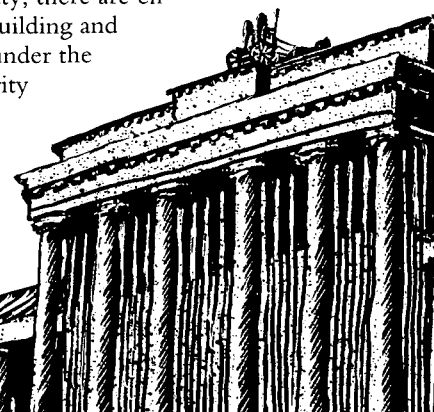
1930s: the lack of economic security eroding political allegiance to democratic values and the lack of military security allowing a looming totalitarian threat to overwhelm weak national militaries. The European Community and NATO were thus intertwined answers to the same question: how to preserve peace in Europe against internal and external threat.

From its first days, the EC (then the European Coal and Steel Community) created new ways of doing business across borders and new sources of confidence and mutual reassurance. Its successes nurtured a perception of the inevitability of a European “zone of peace,” for the time limited to Western Europe but eventually to embrace all of Europe.

Meanwhile NATO evolved into a fully fledged cooperative security organization. In no other region of the world was there more progress toward the mutual coordination and regulation of military capabilities and operations. NATO also developed initiatives on economic security, in particular taking into account the impact of defense cooperation on national economies in burdensharing formulas.

A telling success of the broadly complementary approach of the EC and NATO came in their treatment of Germany. Both NATO and the EC recognized that security was most easily achieved by making Germany a partner and by enmeshing all member states cooperatively in its containment and its economic prosperity. Avoiding an isolated Germany, vulnerable, as after World War I, to demagogic legends, meant developing mutual security structures. Guarding against German “singularization”—and therefore promoting the extension to all Western European states of mutual arms regulation and transparency in military defense decisionmaking—became the political foundation for European cooperation in all fields.

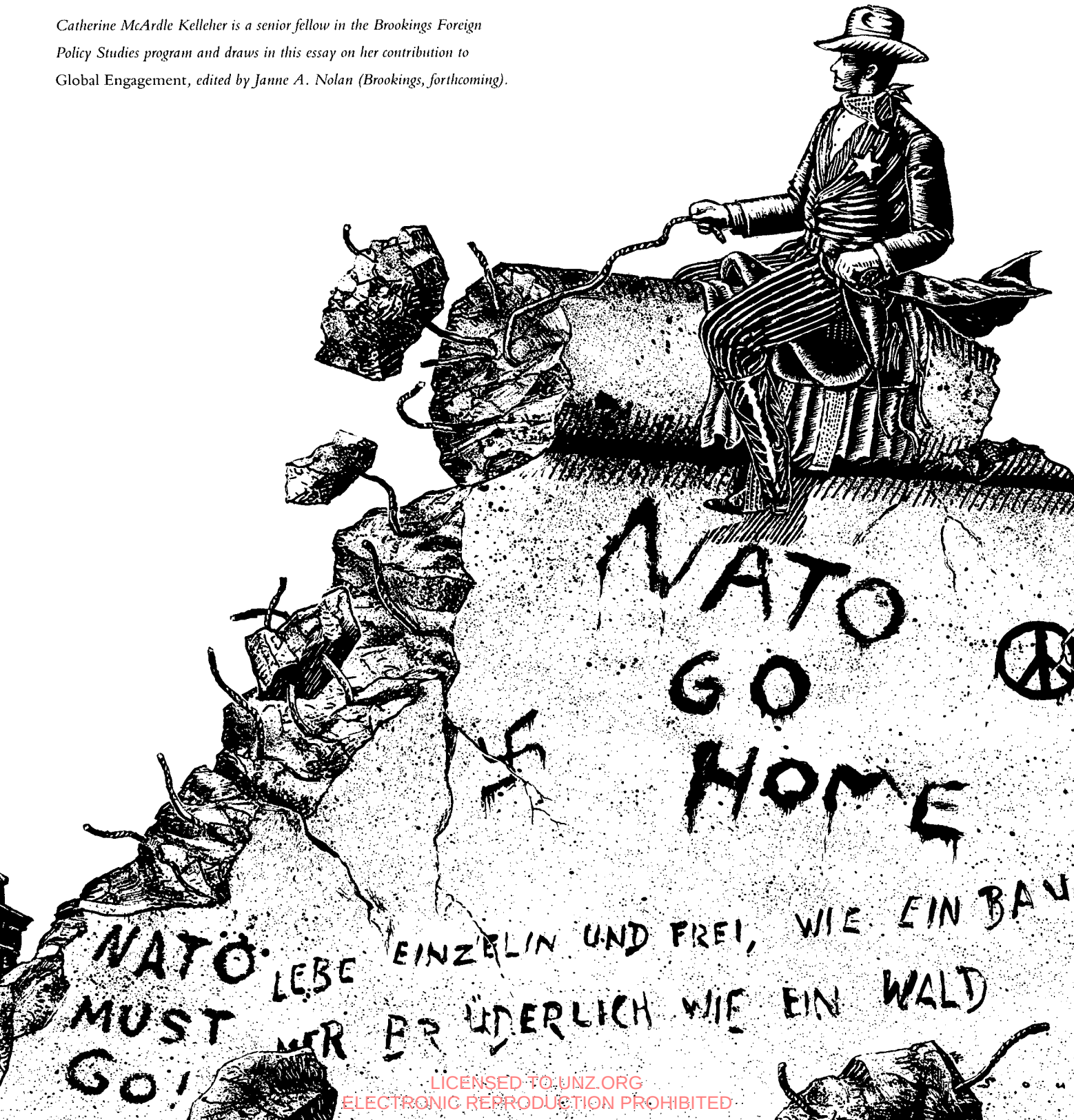
The fall of the wall allowed the expansion of this regime into a Europe-wide system. National equipment and personnel ceilings are set and regularly inspected under the Conventional Forces in Europe (CFE) treaty; there are enhanced confidence-building and stabilizing measures under the Conference on Security and Cooperation in Europe (CSCE); and greater transparency is assured under both CFE



Partnership?

COMMUNITY IN THE 1990S

Catherine McArdle Kelleher is a senior fellow in the Brookings Foreign Policy Studies program and draws in this essay on her contribution to Global Engagement, edited by Janne A. Nolan (Brookings, forthcoming).



and the emerging Open Skies regime. In operational terms, the total regime sets a new standard for openness and mutual constraint among the 40-plus participating states.

Yet both the Yugoslav crisis and the recent debate over U.S.-European security challenge the common vision, both of the security threats and of the means to combat them. For most Europeans, the greatest present threat is economic chaos and political collapse in the former Soviet Union and Eastern Europe. Many Americans also see the risks of new economic and ethnic instability but so far have failed to find a strategy that would parallel the stabilizing effects of the postwar Marshall Plan. Moreover, most Americans (and perhaps too few Europeans) also focus on military security both in Europe and in the new global order for which European cooperation is essential. Their challenge to all critics has been to find an organization other than NATO that can meet its military security standards.

Adapting to the New Security Order

Much of the debate so far has been mired in theological concerns about "security architecture." The first shot was the Berlin speech of U.S. Secretary of State James Baker a month after the wall fell. In U.S. eyes, it was a call for cooperative change—for adapting to the unfolding new world order while continuing the European-American partnership in NATO. Europeans, however, saw Baker's speech as simply the latest in recurring U.S. attempts to forestall the emergence of common European foreign and security policy.

In the debate that followed, France and a somewhat ambivalent Germany lined up on one side and the United States, Britain, and several smaller European states on the other. President François Mitterrand and Chancellor Helmut Kohl took initiative after initiative to establish European union and a clear European defense identity, one not dependent on the survival of NATO or a particular U.S. presence in Europe. One decision was to establish, under the authority of the Western European Union (WEU), a 35,000-man Franco-German corps as the nucleus of a Eurocorps, eventually perhaps a European army.

U.S. reaction was strong. Despite German reassurance, the Bush administration saw the proposals as steps to undermine NATO and the U.S. security role in Europe. The British, Dutch, and Italians also sought to preserve existing Atlantic structures and opposed strengthening WEU at the cost of weakening NATO.

The compromises finally reached stressed mutual political adjustment, both in the EC and in NATO. The EC's December 1991 Maastricht Treaty on European Union foresaw only the "eventual framing of a common defense policy, which might in time lead to a common defense." WEU was to serve as the defense "component" of the European Union and to constitute NATO's "European pillar."

NATO for its part recognized that it shares responsibility for security with WEU and CSCE and pledged to provide for the "necessary mutual transparency and complementarity" to make cooperation possible. It also agreed to allow forces assigned to NATO—German and eventually Belgian and Spanish as well—to be assigned simultaneously to the Eurocorps.

Both NATO and WEU forces will also respond to peacekeeping tasking by the CSCE and the United Nations. WEU will form a rapid reaction force but not an independent standing force. Units assigned to it by NATO member states will wear two hats—one NATO, one WEU—and will be subject first to tasking from the NATO command. In some areas, such as traditional arms control negotiations and conflict prevention, primary responsibility is assigned to the CSCE. The result is a rather untidy but robust organizational chart with overlapping responsibilities and memberships that can but need not be used. But the Yugoslav crisis demonstrated once again that the key is not architecture but political choice and the willingness to undertake the risks and burdens of joint action. The consensus in both NATO and WEU extends only to the defense of national borders, not to joint crisis management or peacekeeping even in NATO's near abroad.

Turning Down the Volume

For now the decibel level of the debate is fairly moderate. President Clinton, unlike Bush, seems to recognize the value of more equal partnership. And the EC's political setbacks after Maastricht—the delays in ratification, Europe's slide into recession, and the collapse of the Exchange Rate Mechanism (ERM)—have convinced many Americans that Europe's evolution will be far slower and more congruent with mutual American-European interests. But, as before, many Americans underestimate the strength of Europe's drive for closer union in all its aspects and what, for Europeans, is the self-evident connection between economic and military security policies.

More important, NATO's transformation is far from complete. Most of NATO's military changes are still geared only to updated border defense. Its political changes do not go to the heart of the post-Cold War challenge: how to define a new overarching purpose that will go beyond the alliance as an end in itself or as a defense against uncertainty. For many in Europe, especially Eastern Europe, NATO's sole function is to frame U.S. involvement in Europe and to structure its leadership role. But Americans in increasing numbers are questioning the costs of and the need for such a role without a transformed rationale and new instruments. Is NATO really necessary, they ask? Would America's bedrock interest in Europe not be served equally well by a European security pillar linked loosely to a North American pillar?

At this stage in Europe's political evolution, there is and probably can be no fixed institutional hierarchy. But the political drift at present is worrisome, as is the failure to agree on a new overarching European-American security concept, let alone a new transatlantic division of labor. Overlapping organizational responsibilities in a transitional period can be a source of weakness as well as of flexibility and strength. Bosnia shows they can allow confusion and delay if the tasking priorities are not clear or provide excuses for inaction.

Moreover, absent a new effective forum for regular high-level political consultation, neither the United States nor the EC states may be able to pursue the transparency and complementarity needed to sustain security

THE UNITED STATES AND EUROPE ARE AT A CRITICAL TURNING POINT IN THE DEFINITION OF THEIR SECURITY PARTNERSHIP.

partnership. NATO has no political analog to the close military cooperation and joint planning under SHAPE; CSCE still barely exists in institutional terms. The CFE-CSCE-Open Skies regime needs political deepening and military extension particularly in light of growing Russian military concerns about regional balances. And U.S.-EC consultations under the Transatlantic Declaration of November 1990 are still less frequent and more constrained in scope than is appropriate.

Outreach to the East

The biggest challenge facing Europe and the United States is whether, how, and when to incorporate the new states of the East into the evolving security order. Initially, France and Germany backed making the CSCE a pan-European security system, an eventual NATO replacement or at least a link to the United States and Canada that would forge a European "peace system." In parallel, the EC focused on the immediate problems of economic assistance. The United States, pleading deficit woes, readily ceded that role to Europe. It gave CSCE its usual half-hearted support and insisted that the restructuring not compromise NATO's role.

Rhetorically, at least, CSCE has provided for comprehensive outreach to the East. More than 50 states, including all the former Soviet republics, have signed on to its principles. But its achievements so far are limited though it now has a permanent secretary-general and has taken on expanded roles in dispute resolution and conflict prevention.

Since August 1991, CSCE has faced direct competition from the North Atlantic Cooperation Council (NACC), a German-American initiative undertaken in the aftermath of the Soviet coup attempt. The aim was to involve Eastern European states as limited partners in the NATO security dialogue—without granting them full or even associate alliance membership. Now extended to the former Soviet republics as well, NACC has notched some real achievements, including persuading the former Soviet states to agree to an equitable division of the Soviet CFE arms limitations and implementing military exchanges and joint training planning. The long-term impact of NACC is still unclear; it has limited formal standing, and the French government has already proposed the Balladur alternative to NACC (and CSCE as well) that would in effect exclude a number of former Soviet republics from any European security community. What is clear is that NACC will succeed only if it is either a training stage toward membership or an organization with significant operational tasks—as in peacekeeping or humanitarian assistance.

What most East European states want is full membership in the EC for economic security and in NATO for military security. But admitting these states as members presents formidable problems. All existing European and transatlantic institutions presuppose that their member states can provide for the basic security and human rights of their populations, ensure minimal political order, and implement the democratic rule of law with general public compliance within clear state boundaries. Accommodating states in decline, states not yet emergent, and states that may never exercise effective democratic political control would stretch the present institutions beyond their limits.

For the EC, although it has long recognized the security-related need to redistribute resources within Europe (heretofore North to South), admitting Russia and the former Soviet republics to Europe seems an unmanageable challenge. The EC has extended a promise of eventual membership only to the six Central and Southeastern European states—and that without specifying a date. Europeans agree that the primary long-term security task must be economic restructuring in the East, but they see the task as global in scope, beyond Europe's own capacity.

Expansion of NATO's formal membership is similarly constrained but is less important than extending and expanding operational cooperation. The goal is to "normalize" interaction and joint action with those NACC states that commit to NATO's basic principles, including democratic control of military forces and decisionmaking, the sharing of burdens and risks, and commitment to the peaceful resolution of disputes under the UN Charter. Intense dialogue and growing common experience will be at least short-term surrogates for, and incentives toward, the behavioral tests for eventual membership.

Joint Action outside the Alliance Territory

Practically speaking, how has the evolving European-American security system been working outside the traditional NATO area? In the Gulf War and Somalia, the United States took the initiative to organize and lead an ad hoc coalition involving European states but outside either NATO or the WEU-EC framework. In Yugoslavia the EC took the initiative at the outset, but without great success and with increasing dependence on the UN, CSCE, and NATO.

The test the EC set for itself in Yugoslavia was not that traditionally foreseen under collective security regimes: an international assessment of blame and the imposition, by force if necessary, of a collective solution.

Rather the standard was that set by the EC states over the past decades—early conflict resolution, early protection of human rights, the timely imposition of sanctions, and the commitment to use all efforts to ensure a war-free Europe.

During the first years of crisis in former Yugoslavia, in the face of deafening silence from the Bush administration and the United States, the EC tried an expanding array of approaches. But there were no lasting successes—only greater divisions, frustration, and indecision. Even now, there is no consensus on what to do once the fighting stops.

The Community's failure is hardly singular. The CSCE has engaged mostly at the formal level (for example, by suspending Serbia's membership). Since the summer of 1992, and certainly since the Clinton administration took office, NATO has become far more energized, and the planning for peacekeeping by SHAPE together with some NACC members has been pathbreaking. But as the August debate over air strikes demonstrated, NATO does not have the critical consensus to use its own command structure, let alone to decide independently on use of force.

The explanations for failure are myriad. The Yugoslav crisis happened before Europe was ready; Yugoslavia's ethnic politics hinder outsiders' attempts to act; the physical terrain makes intervention risky and potentially expensive in lives and equipment; the multilateral instruments for coping with civil war are still too rudimentary.

But the critical factor appears to be the lack of political will. Member governments and their populations, in the EC as in the United States, are unwilling to risk the lives of their military forces in direct intervention. Air strikes were threatened only in the end game of the Bosnian negotiations, and then only grudgingly. And the use of force, even to defend the supply of humanitarian aid, was deemed too risky.

The Yugoslav crisis demonstrates the limits of European and transatlantic commitment to cooperative security action beyond the defense of their own borders—a challenge that seems destined to recur under present international conditions. Democracies require popular support for action—whatever is needed for the present and whatever may be needed if the conflict worsens and the political or military costs mount. European-American cooperation is achieved only through negotiation, often subject to the delays that dog democracies and sometimes disrupted by the intransigencies of powerful states.

What that means in the short run is that action will be taken by individual states who decide to act, often led by the United States or with U.S. logistical support and po-

litical approval. That will certainly be true as long as European states are not able or willing to invest in the hardware, the power projection capabilities, and the training needed for peacekeeping. But even a European commitment to eventual joint action will not necessarily ensure timely crisis intervention or effective peacekeeping without renewed political cooperation. And U.S. support for European operations without prior consultation and planning seems questionable—which brings the argument back to a NATO or NATO-like framework for joint action.

Options for the Future

Of two things regarding the transatlantic alliance we can be sure. Europe and the United States will not undergo a dramatic fracture nor will they lose interest in each other. Two broad options remain. The American and European security systems could merge under an umbrella organization called NATO. Or they could evolve separately into two systems bound to cooperation only in circumstances of mutual interest or under direct threat.

The worst possible eventuality would be two weakened systems unable to meet their goals because of high costs and lack of political will, with the EC endorsing the rhetoric of a European defense identity but doing little to make it work, and the United States unwilling and unable either to maintain forces in Europe or to join with or support European forces.

What of the NATO option? One possibility, a simple reduction of past NATO structures to more "cost-effective" levels, is not only unlikely, but probably undesirable given the new international demands. Also to be avoided is a simple division of labor occasionally espoused by advocates of the "two pillar" approach. With variations, the argument recurs: NATO in its transatlantic form becomes activated if and only if the United States is involved or the conflict involves nuclear weapons or Europe's own security institutions have not resolved the conflict or restored the status quo ante. This relegates the United States to the role of expeditionary fire brigade, one not easily played in the face of declining public or congressional support or even defense cuts.

What is needed is a fundamental transformation of the alliance, involving agreement on broad goals and eventual membership or scope, as well as on a specific division of labor and a significant overlap of missions and capabilities. If the NATO umbrella is to work, commitments cannot be à la carte or simply the result of decisions made on a case-by-case basis. But that does not rule out organizational transformation or selective partic-

**THE CHOICES FACING EUROPE AND THE UNITED
STATES TODAY ARE REMARKABLY LIKE THOSE
THEY FACED AT THE END OF WORLD WAR II.**

ipation in certain tasks, separate as well as common priorities for each pillar, and national, regional, or cooperative funding of key projects and activities. Indeed, viewed broadly, these have been the tools with which the United States has worked for the past 40 years to ensure cooperation in NATO—among nuclear and non-nuclear states, states in NATO's tightly integrated central front and on its loosely tied southern and northern flanks, states rich and poor.

One attractive alternative is to give NATO and the NACC primary responsibility for the security dialogue with Central Europe and the former Soviet republics. NATO would be the decisionmaking forum for both Americans and Europeans on three key issues: preparation for involving the East in peacekeeping and peacemaking; assistance to the East on the democratization of security and on defense restructuring; and crisis management tasking from the CSCE and the UN. Carrying out these responsibilities would require regular transatlantic political consultation and a permanent policy forum, as well as maintenance of key levels of NATO's present integrated command. Probably it would also involve some cross-Atlantic deployments and training as well as a continued U.S. presence on the continent.

But this must be an organization that assumes an engaged, internationalist EC. There is no need to exclude European military integration, EC support for the East, or even direct EC-East ties for security cooperation in specified areas or for particular missions. The EC might indeed be charged explicitly as a "subcontractor" on issues like defense conversion and export controls. It would, however, remove from contention the issue of first responsibility, something that several EC members would indeed appreciate.

The EC could be given primary responsibility for building economic security in the East, through direct aid or channeling private-public humanitarian ventures. The charge to the EC might well be to develop a plan for broad trade and credit agreements to promote imports from the East or to arrange for favorable lending to the East for investment and for building infrastructure. Clearly the joint military-economic security burden would have to be redefined. Most important would be EC-U.S. agreement on calculating a new metric to acknowledge the contributions and the obligations of all participating states in the interrelated economic and military spheres.

The greatest change would have to be in the behavior of the United States—a pattern already somewhat practiced by the Clinton administration. The United States would have to take far more seriously the question of sharing responsibility—of not subjecting its allies to unilateral decisions or commitments that bind them to U.S. decisions. It would have to be prepared to hear and accept the EC speaking with one equal voice in security issues as in trade. It would have to be willing to be subject on some issues to joint decisions—as would its European partners. The United States would thereby give up a major bargaining threat—precipitous congressional or executive action on cuts or withdrawal. It would have to downgrade some useful bilateral channels of influence and pressure. It would probably have to accede on specific joint EC-U.S. procedures for agreement (not just

notification) about the temporary withdrawal of forces for other missions out of area. But it would gain a stronger framework for its own efforts to transform security policy, for planning purposes as well as at least limited efforts toward force specialization between pillars.

It has been suggested, most recently by Chancellor Kohl, that this transformation requires a new transatlantic treaty. Treaty supporters argue that it would complement the North Atlantic Treaty, not replace it, and add the keystone to the range of treaties the EC is concluding with critical nation states. It would emphasize the EC-U.S. relationship in all its facets, not just military security or even an expanded definition of military and economic security.

U.S. officials to date have supported the idea of intensifying and expanding U.S.-EC relations, but have been less enthusiastic about a treaty as the means to do so. They point out that the real question is political commitment, the decision on both sides of the Atlantic to proceed to new forms of cooperation. They also note the recent failure of the EC states to arrive at common positions of critical importance to the United States, most particularly on the Uruguay Round of GATT talks and the plans for the "no-fly zones" and air strikes in Bosnia. Treaty or not, they argue, the key questions in the post-Cold War era will be the basis for cooperative action and the equitable sharing of burden and benefit.

In sum, neither side of the U.S.-EC dialogue has been as willing to explore new options jointly or to build on what has already been achieved together as the post-Cold War security challenge demands. The guilt of joint inaction in Bosnia may spur greater agreement; domestic budget pressures and needs for electoral justifications for national military establishments may speed the process. But the NATO Summit in January provides the decision-forcing deadline to begin the significant transformations required.

From Vladivostock to Vancouver

The security regimes that have evolved in Europe and in the Atlantic relationship offer a complex, interwoven system of institutions adequate to most security requirements in the present era of relative peace in Europe. Short of massive civil unrest in Russia or unlikely global conflict, the pieces now in place could provide the building blocks for a new security cooperation whose potential reach is, as the CSCE motto proclaims, from Vladivostock to Vancouver, from the borders of Florida to those of Anatolia. What is lacking is the political decision to take on this task and to rally weary publics behind it.

The choices facing Europe and the United States today are remarkably like those they faced at the end of World War II. The arguments for action and inaction are the same; the political and military resources needed are of comparable magnitudes. The tools available for a cooperative solution are also alike—international and multilateral institution building, cooperation before competition, democratization and economic prosperity as the lodestones in the search for security. Few states have had the luxury of confronting the same choices twice, perhaps on even more favorable terms the second time.

The opportunities and risks are clear. The time for choice is at hand. ■

DREAMS OF A SALESMAN

THE RUSSIAN DRIVE TO INCREASE ARMS EXPORTS

When, in 1992, the Russian government cut weapons purchases an almost unimaginable 68 percent, the nation's reeling defense industry seemed at first to have little choice but to undertake a definitive conversion to producing civilian goods. But while many arms manufacturers did indeed make a serious effort at conversion, numerous others asked if it would not be easier to find new customers for their old products—weapons—than to change over to a new, civilian, product. Managers and workers of hundreds of Russian defense enterprises spoke of arms exports not merely as one option for their industry, but as its only hope for survival. And Russia's political leaders lined up solidly behind the decision to increase arms exports.

As it turned out, though the defense sector weathered the 1992 crisis unexpectedly well, thanks mainly to big government subsidies, few Russian arms enterprises enjoyed any export success at all. For most enterprises, the export option remained untested. But it is beginning to be tested today—and the prospects cannot be encouraging to the Russians.

The Arms Export Consensus

President Boris Yeltsin had spoken out in support of an active arms export policy soon after the August 1991 coup attempt. As early as October of 1991, he claimed to have discussed with President Bush the possibility of dividing up the world's arms markets, and in a widely publicized *Izvestiya* interview in February of 1992, he described arms exports as a potential "shock absorber"

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DEATH OF
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"Russian Arms Sales
Abroad: Policy, Prac-
tice, and Prospects."*

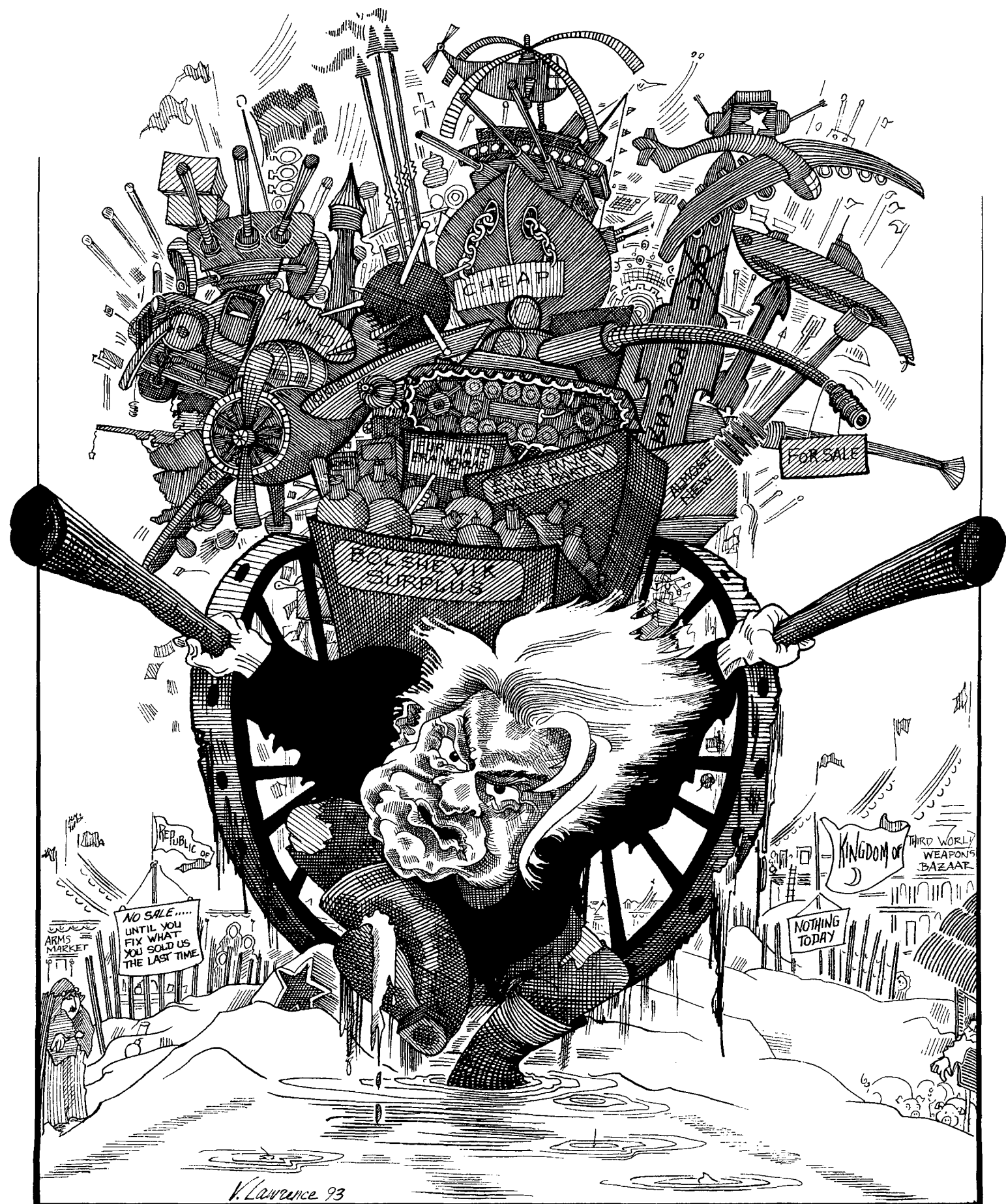
to mitigate the impact of deep procurement cuts.

Before long, other top leaders of the Russian government were echoing Yeltsin. Last December, Yegor Gaydar, then acting prime minister, stated unequivocally that Russia had "absolutely no grounds" to leave the arms export market. Last February Foreign Minister Kozyrev made access to Western arms markets a central issue in talks with U.S. Secretary of State Warren Christopher. Defense Minister Pavel Grachev has been actively involved in seeking new arms markets abroad.

Yeltsin's opponents, too, are on the arms sales bandwagon. Vice President Aleksandr Rutskoy recently expressed his view that "all shame should be brushed away, and military equipment should be sold to the states that want it." Arkady Vol'skiy, a key leader of the centrist forces in Russia and co-founder of Civic Union, is also on record in support of expanding arms sales.

Government officials have become increasingly aggressive in pursuit of export success. Yeltsin now appears to view arms exports as a long-term policy, not a temporary expedient. At a cabinet meeting in January, he questioned the need to convert military plants to nonmilitary production. Noting the "colossal market" for military products, he wondered whether "we just might have to rehabilitate the factories of the military-industrial complex that have been retooled to produce pots and pans." Russian officials are also repeatedly raising the demand that Russian defense enterprises be given access to Western arms markets.

Yeltsin is being pressed harder to reverse his policy of adherence to United Nations sanctions on arms exports, though to date he has not wavered. In late 1992



and early 1993 a number of press reports, citing various official sources, reported Russian losses from adherence to the sanctions at anywhere from \$7 billion to \$27 billion. In February the reformist Deputy Prime Minister Aleksandr Shokhin said that Iraq was ready to start repaying the billions of dollars it owes Russia for arms if Russia would withdraw its support for UN sanctions against Iraq. A nonreformist Russian government, warned Shokhin, would not dismiss such an offer.

The government's motives for pushing arms exports are numerous and complex. Primarily, arms exports would help maintain the defense industrial base and also earn hard currency to finance conversion. They are also one way of paying some of the former Soviet Union's daunting foreign debts. And they could provide funds to solve the military's considerable social difficulties, especially the housing shortage. Finally, the defense sector is a sizable and still influential constituency in Russian politics. Vigorous promotion of exports may help gain its support or at least forestall its active opposition.

Disappointing Results

The broad political support for arms exports notwithstanding, Russia's foreign arms sales are falling. The years 1989–91 saw major changes in Soviet policy and in the world at large—the Warsaw Pact collapsed, and Russia dropped several unsavory or insolvent third world clients and shifted to conducting foreign trade on a hard currency basis—that triggered a huge drop in arms exports. Soviet sales fell from \$14.9 billion in 1989 to \$3.5 billion in 1991. Russian sales fell further, to just under \$2 billion, in 1992.

Traditionally, Soviet arms transfers had been granted on easy credit terms and were frequently not paid for at all. Mikhail Maley, Yeltsin's conversion counsellor, has noted that of the \$14.9 billion in arms supplied to foreign governments in 1989, "we never received more than \$4 billion or \$5 billion in cash. All these arms were supplied for free to our ideological friends, countries which were hopelessly bankrupt." Although the lack of accurate accounting may make it impossible to determine the true market value of Soviet arms sales, one Russian commentator may not be far wrong in concluding that the decline in value of arms exports since 1989 roughly reflects those deliveries that were supplied "practically free of charge."

Nonetheless, the continuing downward trend is clearly disappointing to the Russian government and defense industry. In the past year, rumors of negotiations and contracts were more numerous than hard evidence of concluded agreements, and those deals that were struck tended to be for smaller amounts than expected. Furthermore, while the days of free arms deliveries and easy credit terms are over, many sales have been made at least partially for barter or to offset existing Russian debt, rather than for cash.

Who's to Blame?

Many Russian defense industrialists and some government officials blame Russia's poor showing in the world arms market on the government arms trade bureaucracy. Last June Defense Minister Grachev charged

that "the majority of agreements on the sale of Russian equipment and arms have collapsed. And they have collapsed for reasons that are purely bureaucratic."

The main targets of criticism are the Ministry of Foreign Economic Relations (MFER), which issues export licenses and controls prices, and its three state arms trading organizations—the independent firms *Oboronek-sport* and *Spetsvneshtekhnika* (formerly the MFER's Main Engineering Administration and Main Technical Administration) and the Main Administration for Cooperation and Collaboration (GUSK), currently part of MFER but soon to be merged into the firm *Konvimeks*. These three organizations are the primary means by which defense enterprises sell arms abroad, and many sources report that they are the only bodies legally permitted to export arms. (Mikhail Maley contends that arms producers actually have the legal right to export independently, but that *de facto* they must operate through these organizations because the bureaucratic obstacles to independent exports are so great.)

Defense industrialists and their advocates, as well as Defense Ministry representatives, charge the MFER with impeding the sale of arms through excessively complex procedures, overpricing, and failing to involve the producing enterprises in negotiations. As a result, they say, contracts are delayed, Russian firms are unable to expand export volume by lowering prices, and potential clients are deprived of direct contact with those most knowledgeable about the equipment they are seeking to buy—the producers themselves.

But officials from MFER contend that enterprises do not have the expertise to market their products abroad. Furthermore, they say, if enterprises were permitted to export arms freely, intense competition among Russian firms would lead to "dumping" prices on the world market, and the resulting chaos would increase the risk of Russian arms ending up in areas of regional conflict, including the states of the former Soviet Union or the Russian Federation itself.

The processes by which arms are traded in Russia are indeed complex. At least eight different ministries and government committees have a direct role in the conduct of arms exports, as specified in the Statute on Military-Technical Cooperation signed in May 1992. And while Defense Minister Grachev puts most of the onus for collapsing deals on the MFER, some critics cast a wider net and include the Defense Ministry in their complaints against the arms trade bureaucracy. Enterprise directors complain that to get permission to export arms, they need approval from nine separate sources, a process that takes anywhere from two to fifteen months.

In the spring of 1992, for example, the Tula region received special permission to export arms and keep up to 70 percent of the foreign exchange earnings (instead of the usual 50 percent). But Tula enterprises have apparently benefited little from the concession. In December 1992, *Nezavisimaya gazeta* reported that although the Tula Weapons Plant had many interested customers, it was unable to get the necessary authorizations to conclude a deal. As recently as last March *Rossiyskiye vesti* reported that in Tula, "not a single contract for weapons has been concluded."

Still, difficult as the licensing process is, many firms are independently seeking clients and conducting preliminary negotiations, in the hope of getting government approval once they have the contract in hand. Some producers, such as the combat aircraft manufacturer Sukhoy, which last year negotiated a deal to sell Su-27s to China, have apparently met with success.

In other cases, though, Russian arms producers are running into export chaos. Russia's efforts to sell MiG-29s to Malaysia, for example, deteriorated into a virtual free-for-all, in which 18 intermediary representatives reportedly showed up in Malaysia claiming authorization to sell MiGs. In the midst of this confusion, two of the three state arms trading organizations were apparently competing against one another.

Naturally, the Russians' bargaining position was undercut, and Malaysian concerns about Russian reliability reinforced. American competitors were able to press their campaign to sell F-16s or F-18s as an alternative to the MiGs. (In late June, the Malaysian defense minister announced that they would buy 18 MiG-29s and 8 F-18s.)

In fact, however, bureaucratic complexities are a comparatively minor source of Russia's difficulties in the world arms market. If Russia were to develop perfectly efficient procedures to conduct and oversee the arms trade tomorrow, the country's prospects for long-term success as a weapons exporter would remain doubtful.

Can Russia Compete?

Russia's chief competitive advantage in today's global arms market is, without question, low costs. But costs are unlikely to stay low. And absent the cost factor, Russia will have to rely increasingly on any advantages it can gain in the sphere of "nontraditional terms of sale"—factors beyond price and quality, such as the mode of payment and the choice of customers. Russia has, for example, shown itself willing to accept payment in barter goods, something few if any developed Western nations are prepared to do. Barter terms were a particularly key factor in Russia's recent sale of combat aircraft to Malaysia and are being offered to other potential clients in the developing world.

Choice of clients is a more serious possible advantage. Russia's most important arms export deals in 1992 were with China, India, and Iran. In each case traditional arms ties or, particularly in the case of Iran, the client's estrangement from the West gave Russia an edge not to be found in other markets. At present, though, the Yeltsin government is refraining from selling arms to former clients under UN sanctions, such as Iraq and Libya.

To the extent that Russia is willing to sell arms to marginal or even outlaw nations, it would be the only seller on a market off-limits to all potential competitors. But such deals are unlikely to turn out to be a free lunch. Almost inevitably, the nation as a whole—although not necessarily the individual exporters—would pay in the form of lost stature in the international community and, possibly, lost foreign financial assistance and other outside aid.

Obstacles to Success

The world market for arms has grown increasingly competitive in recent years, owing to shifts in both supply and demand. The end of the Cold War has reduced global demand for arms, including imported arms, and at the same time, some of the world's main arms-importing regions, such as the Middle East, are becoming less able to sustain previous levels of arms purchases.

The end of East-West rivalry has also affected the supply side of the arms market. Government defense budgets have shrunk throughout Europe and in the United States, leaving the defense industrial establishments built up during the Cold War severely over-

YELTSIN NOW APPEARS TO VIEW ARMS EXPORTS AS A LONG-TERM POLICY, NOT A TEMPORARY EXPEDIENT.

sized. Most of the world's arms manufacturers are trying to offset the decline in domestic demand at least partly by increasing sales abroad. Some of these firms have better reputations for quality and reliability than do Russian enterprises. Even in market segments where Russia might try to compete on cost alone, it now faces rivalry from its own former Warsaw Pact allies and other states of the former Soviet Union providing Soviet-designed equipment.

Nor is Russia's foreign competition simply standing still, waiting for the newcomer to catch up. Western manufacturers are streamlining production, cutting costs, and merging to produce even tougher competitors. The European trend in the missiles sector is typical: firms there are entering into cross-border collaboration to forge ventures large enough to compete against larger U.S. rivals. As the U.S.-European competition grows more intense, Russia's chances of mounting a serious challenge to either diminish.

It's Tough to Break into Foreign Markets

Exporting in general is an awesome undertaking for any one company, East or West, defense or civilian. As one specialist has noted, "penetrating an export market

is a resource-intensive activity, requiring money to research the market, modify products, and finance deals; skilled people to develop, execute, and service those deals; and time to overcome a seemingly endless stream of procedural barriers.”

Of those three ingredients for export success—money, skilled staff, and time—Russian enterprises in general, and defense enterprises in particular, are woefully lacking in the first two. And while they may at the moment seem to have an abundance of the third, many enterprises may find time to be the most serious constraint of all as Russia appears to be losing, rather than gaining, market shares as the months go by.

THE MOST SERIOUS PROBLEMS THAT THE RUSSIAN DEFENSE INDUSTRY IS FACING ARE A DIRECT RESULT OF THE NEW FREEDOM IN THE RUSSIAN ECONOMY.

Because of the isolation of the old Soviet system from the world economy, very few people or institutions in Russia are familiar with the complexities of foreign trade. For the military sector, the problems are particularly acute. Under the old regime, most producers of arms had little idea how to market their product, and the intermediary export organizations had little incentive to market aggressively, since they received no return on the sales. Today *Oboroneksport* and other trading companies may be more knowledgeable about particular products, and firms whose products are in demand abroad—for example, the Sukhoy and MiG aircraft plants—may be developing international marketing expertise. But Russian defense enterprises on the whole are simply not organized to seek new markets. Worse yet, most are not even aware how difficult an undertaking this is and how far they have to go.

For arms manufacturers, breaking into new markets presents special difficulties. Buyers are reluctant to incur the formidable readjustment costs involved in changing suppliers, including retraining and changes in command and control systems that must be made compatible with the new equipment. Therefore, lur-

ing customers away from present suppliers requires more than the lower prices Russian arms makers see as their chief selling point.

The Reputation of Russian Arms

In the aftermath of the Gulf War, in which Soviet-made weapons performed relatively poorly against the Western-armed allies, the reputation of Soviet arms has declined somewhat. At a Rand Corporation seminar in March 1991, Major General Alexey Bazhenov, editor of the journal *Military Thought*, stated that after the war even Soviet generals believed parts of their arsenal to be outmoded and inferior to Western equipment. To offset the negative publicity of the Gulf War, Russians have been making high-profile appearances at Western arms shows. By showing more modern weapons and offering adequate training, Russian firms may over time be able to significantly reduce this obstacle to entering new markets.

The old USSR had chronic difficulties meeting clients' needs for maintenance and spare parts, leading some former customers to seek other sources. When India, for example, experienced problems as a result of instability in the Soviet Union, it began buying spares from several East European countries. In February 1992 economist Sergey Akimov, an advocate of arms exports, maintained that the old Soviet practice of “sell and forget” was continuing in Russia. “Thousands of firms are making a good living by our ‘forgetfulness,’” said Akimov. British firms, he noted, were making parts for T-55 and T-60 tanks and beginning to supply MiG spares to Hungary. “One can only guess at the ‘brawl’ that is now going on for delivery of spares to India.”

Russian officials are attempting to reassure important clients on this issue. In January, the Russian and Indian defense ministers signed a comprehensive agreement that guaranteed Russian deliveries of spares, product support, and maintenance services for Russian arms being used by Indian armed services. Included was an agreement to set up joint facilities in India for production of military spare parts. In addition, there are also reports of Indian involvement in the negotiations to sell Russian MiGs to Malaysia, with India slated as a future spare parts supplier to Malaysia to allay concerns about Russian reliability.

The Disappearing Russian Cost Advantage

For the most part, Russian arms manufacturers today compete on cost, rather than product quality or other terms of sale. But the cost advantage is based not on superior organization of production but on artificially low prices of inputs. In this regard, Russia's economic reform is creating a fundamental problem for arms manufacturers, one that can be illustrated in the case of two key inputs—raw materials and labor.

Russia's key raw materials were earlier destined overwhelmingly for the defense industry, their prices held low to keep down defense costs. Now, as some of the most marketable goods Russia possesses, they are being exported on a large scale. As suppliers of raw materials gain free access to both world markets and domestic civilian markets rather than being tied

to specified military customers, the prices of their products are being bid up. Arms producers who are now having to pay market prices will become increasingly noncompetitive in the price of their own products. To some extent, what has happened is an example of the “perverse” practical effect of a theoretically sound policy. The radical cut in Russian defense procurement in 1992 should, in principle, have been a gain for Russia since it meant that valuable raw materials, and the labor and other inputs used to process them, could be reallocated to more socially useful ends.

Theoretically, the gain from reallocation would be more than sufficient to solve the problems of the defense industry. But what happened in practice? The raw materials manufacturers sold their commodities at market prices, either at home or abroad, and retained virtually all the profits. In a word, they spontaneously privatized that portion of Russia’s peace dividend. The raw materials manufacturers were not the only winners in this reallocation: Western consumers, for instance, have benefited from the new low world market prices on metals. But among the undisputed losers are the Russian defense industries that no longer have access to guaranteed supplies of virtually free raw materials. Not surprisingly, many military end-product manufacturers now call for price controls on component and raw materials suppliers.

A second threat to low Russian production costs is the prospect of a demand-driven rise in labor costs. That Russian defense manufacturers could be encountering a labor shortage seems puzzling amidst all the talk of impending mass unemployment in Russia. But the problem for defense plants is not labor in general; it is *skilled* labor. Such workers are in demand by the new private sector and even by existing (formerly state-owned) civilian enterprises. International firms are also providing a small but growing market for skilled defense engineers. The result is an exodus of skilled labor from the defense sector. Although no authoritative statistics exist, most manufacturing enterprises appear to have lost between 5 percent and 20 percent of their work force over the past two years. R&D institutes have lost even more.

That sort of labor force reduction is not what economists have in mind when they speak of firms shedding labor to reduce costs. For the most part, the Russian defense industry is shedding not its poorest workers, but its best and most productive. The result is a drop in average productivity in the industry and, equally important, a drop in the morale of workers who remain.

The problems with labor and raw materials that the Russian defense industry is facing are a direct result of the new freedom in the Russian economy. Under the old Soviet system, the entire military-industrial production network was an artificial construction. Resources were allocated not by the free choice of economic agents among a range of alternatives—the “free market”—but by highly constrained choices dictated by centrally administered allocation or regulation.

Today Russians, including those who direct and work in military enterprises, can choose among alter-

natives. In the long term, their free choices will lead to new networks of production. But the process will not be smooth, and in the short term severe disruptions will be the norm.

Back to the Future?

From a competitive standpoint, the defense industry of the Soviet Union had two strengths: low cost and good technology. The low costs were made possible only by massive government subsidies to the military production sector, subsidies paid for by a heavy tax burden on Soviet citizens. And as Russians have consistently demonstrated in recent years, they will no longer accept such a burden. In addition, in the old Soviet system, cost control was maintained by the military-industrial complex’s monopsony position *vis-à-vis* suppliers of raw materials and labor. Today, those suppliers are increasingly free to find other purchasers of their products.

To the extent that remnants of the old system, such as price controls, continue to exist and to the extent that market relationships are not yet fully enough developed to free suppliers completely from ties to old customers, costs will remain artificially low. To that extent, also, Russian arms producers can remain competitive. But, conversely, as long as current trends toward marketization continue, costs will also increase. And they will almost certainly rise faster than can be compensated by improvements in the organization of production.

The only way Russia could compete successfully in the world arms market would be to reestablish heavily integrated, centrally controlled defense industries. This it could do by a coordinated, systematic policy of consolidation, triage, and down-sizing. Priority would have to be given to the strongest of Russia’s defense industries, with the rest allowed to perish.

A plan developed for Yeltsin by Mikhail Maley, and being tested in the Republic of Udmurtiya, clearly points in this direction: profits from sales by export-competitive arms plants are to provide financing to reprofile plants that have export potential but are not yet competitive. To this end, successful exporters are encouraged to merge with noncompetitive plants “with a view to self-financing for a transitional period.” Enterprises judged not to have export potential are to be privatized and converted as quickly as possible.

In principle, a smaller, streamlined, and centrally controlled defense industry could be sustained by purely economic means—by paying competitive market prices for labor and raw material. In practice, the tax burden required to implement this approach would be politically impossible in today’s Russia. The only other alternative would be to reestablish at least a partial command economy. At a minimum, this would mean a ban on exports of key raw materials, mandatory deliveries of certain materials to the defense complex, and possibly even restrictions on labor mobility. Such regulations are no more feasible in Russia today than is the tax burden required to support a market-economy military industry supported by heavy subsidies.

In the long run, the Russian arms industry cannot and will not be competitive on the world market until the Russian economy as a whole is. ■



Despite early hopes for the advent of a “new world order” to succeed the Cold War, the shape of what is to come remains elusive. One possibility, however, suggested by the Iraqi invasion of Kuwait and the subsequent Persian Gulf War in 1991, is that the global superpower struggle could yield to a series of lesser regional conflicts. And some of those conflicts, paradoxically, could result directly from the post-Cold War drop in military spending, as the advanced weaponry of the industrialized countries is recycled to developing countries. Indeed, the Conventional Armed Forces in Europe treaty, signed in November of 1990 by the 34 member states of the Conference on Security and Cooperation in Europe (CSCE), imposes no restriction at all on exporting either new or second-hand weapons to countries that are not signatories to the agreement.

At the moment, world arms sales are going down. Total sales fell from a peak of \$42 billion in 1987 to \$12 billion in 1992, as figure 1 shows. But the implications for the future are far from reassuring. By far the largest drop has come in deliveries of Russian arms, and Russian exporters are eagerly looking for more business. Since 1989 the value of U.S. deliveries of arms to developing countries has actually risen. Even more worrisome, the value of *agreements* to sell arms has fallen nowhere near as much as actual shipments (figure 2). In 1992 the United States and the major European countries signed agreements to export arms that represented increases over agreements they signed in 1987.

Furthermore, even though substantially fewer weapons are now changing hands between countries, changes in global security since the breakup of the Soviet Union are making the arms situation more volatile. During the Cold War the United States and the former Soviet Union maintained control over the nations accumulating weapons. With the United States now the sole superpower and a reluctant global policeman, developing countries can stockpile arms free of traditional constraints.

Finally, although the arms sale slowdown has been driven in large part by the ending of the Cold War, the global economic slowdown and the tightening of budgets in many developing countries has also played a large part in reducing arms imports. As figure 3 shows, developing nations in the Near East, Latin America, and Africa—all regions experiencing economic troubles—cut arms purchases way back between 1985–88 and 1989–92. But in Asia, the one region that has maintained strong growth over the past few years, arms imports actually grew briskly. When the world recovers from its economic slump, arms sales may begin rising again.

In short, although the drop in arms deliveries in recent years provides a measure of comfort to a world anxiously looking ahead to the emerging post-Cold War order, there is no reason to expect—and certainly no reason to act—as if controlling arms exports to developing countries is no longer a matter of urgent concern.

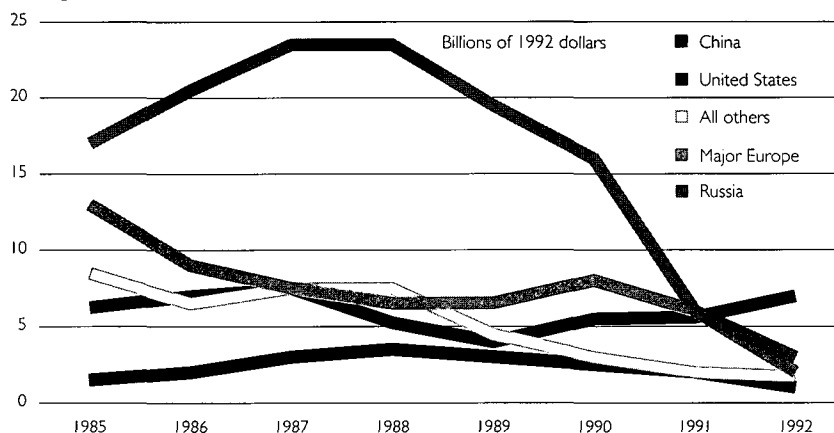
A New Military Equilibrium?

Preventing Regional Conflicts in the Developing World

Warwick J. McKibbin

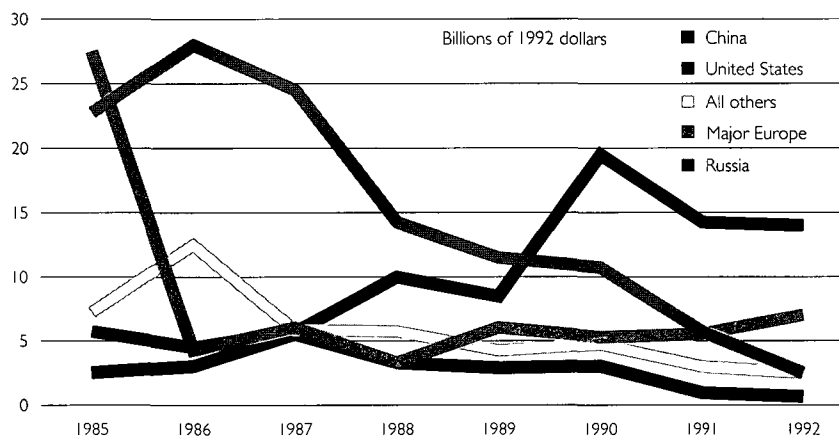
Warwick J. McKibbin is a nonresident senior fellow in the Brookings Economic Studies program and professor of economics at the Australian National University. He is the editor, with Lawrence Klein and Fu-chen Lo, of Arms Reduction and Economic Development in the Post-Cold War Era (United Nations University, forthcoming).

Figure 1. Arms Deliveries to Developing Countries (by Supplier)



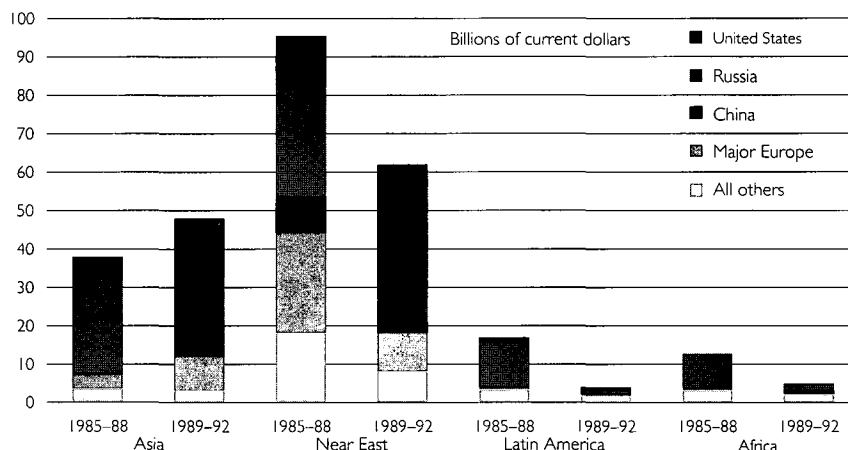
Source: Richard F. Grimmett, Congressional Research Service, "Conventional Arms Transfers to the Third World, 1985-92."

Figure 2. Arms Agreements with Developing Countries (by Supplier)



Source: Richard F. Grimmett, Congressional Research Service, "Conventional Arms Transfers to the Third World, 1985-92."

Figure 3. Arms Agreements with Selected Regions (by Supplier)



Source: Richard F. Grimmett, Congressional Research Service, "Conventional Arms Transfers to the Third World, 1985-92."

The Leading Option

Over the past several years security policymakers in the West seem to have concluded that the best way to limit the accumulation of weapons in developing countries, as well as to minimize regional military buildups, is to provide economic assistance to developing countries only if they keep military spending to reasonable levels. This approach, known officially as "military conditionality," breaks with traditional aid policy, which has been premised on keeping development assistance strictly independent of domestic defense issues. Several European countries, most notably Germany and Italy, formally adopted conditionality during 1991, and now link development aid to the recipient's military spending policies.

Conditionality's momentum increased in June of 1992 when Japan unveiled the Japanese Official Development Assistance Charter, which states explicitly that "to maintain and strengthen international peace and stability," Japan will provide development assistance only after taking into account "trends in recipient countries' military expenditure, their development and production of weapons of mass destruction, weapons and missiles, their export and import of arms."

Increased interest in conditionality has also led to efforts to extend it to multilateral aid institutions such as the World Bank and the International Monetary Fund. Citing the immense social costs to many developing countries of maintaining large military forces, for example, Robert McNamara strongly recommends that these international institutions use military spending as an important criterion in making lending decisions.

But, in fact, conditionality presents a number of problems. The immediate practical question is how to implement such a system. The first difficulty is how to develop a satisfactory measure of the extent of militarization in a developing country. When is a military establishment "excessive"? How, for example, does one take into account the issue of perceived threat, which of course differs immensely from one country to another? Economists have begun assembling and evaluating data on development assistance and military spending in an attempt to construct a "militarization index" that could be used for evaluating excessive military spending. But the technical and political hurdles are immense. And even if they could be overcome, implementing and administering a system of conditionality would impose large costs on the World Bank, the IMF, and other such agencies and necessarily divert them from their primary task of providing development assistance.

But even beyond that, the fundamental problem remains that conditionality deals with the *symptoms* of military expansion, not the *causes*. The ultimate goal is to make developing countries feel secure enough that they do not think it necessary to expand their military capabilities.

Needed: A Credible Security Arrangement

Countries will build up and maintain large military budgets for several reasons. Sometimes the object is to counter a perceived threat, whether from internal or

from external forces. Sometimes it is to gain a perceived benefit from undertaking aggression against another country. And sometimes it is simply to funnel resources to politically strong military interest groups. In the latter case the problem is a lack of accountability to the taxpayers who finance the military establishment. In the former cases the problem is a lack of security: in a vicious cycle, inadequate regional security spurs individual countries to increase their military spending, and higher military spending leads to even worse security. Controlling world arms sales depends on a two-pronged approach that takes both problems into account.

As noted, conditionality does not address the fundamental need for a credible security arrangement. But there is a way to do it—and through an international institution, the United Nations, whose mission is consonant with such a task. Specifically, the United Nations can provide direct economic incentives to countries to limit arms transfers and military spending by imposing on each member country a levy proportionate to that country's military spending. And it can use the proceeds to build a credible security arrangement that would lessen the need for arms build-ups.

The United Nations could substantially minimize the benefits and maximize the costs of increasing military spending by assessing a tax of 2 percent for each dollar of military spending within a country and 50 percent on each dollar of arms export from that country. The tax would be levied directly on countries so the cost of collection would be minimal. In countries where arms exports are carried out by private corporations, it would be up to the national governments to pay the tax and then collect it from the corporations.

Simply by thus raising the costs of military spending, the UN could begin to tackle the problem of regional security and to improve the outlook for regional conflicts. But it could address those issues more fully through the use of the revenue thus raised. Part of that revenue could go toward improving the ability of regional security groups, such as ASEAN in Asia, to monitor military establishments, eventually opening them to full public scrutiny. The Stockholm International Peace Research Institute (SIPRI), the International Monetary Fund, and the World Bank could also play a useful role by highlighting the extent of developing nations' military spending as part of their regular expenditure review budget process. Both efforts would counter the power of entrenched military interests by making governments more accountable for their budgetary decisions.

The rest of the revenue could be put in a fund controlled by the United Nations Security Council to be used for military interventions by the international community in response to acts of aggression against countries that have contributed to the fund. At a 50 percent tax rate on arms exports and a 2 percent tax on military expenditures, total arms exports of around \$12 billion and military spending of around \$1 trillion would yield around \$26 billion a year. Such financial backing would vastly improve the credibility of inter-

national action to protect individual countries against external threat.

As a whole my proposal would enhance both global and regional security. Stronger countries would have less incentive to mount military actions against others because of the certainty that their aggression would be punished. And for the same reason, more vulnerable countries would perceive less of an external threat. The prospect of greater security would reduce the incentive of both to maintain large military budgets. The traditional strategy of reducing the threat of military action by maintaining large countervailing forces would become obsolete. Instead, countries, developing countries in particular, could use their resources for crucial domestic needs, thus lessening the threat of domestic political instability.

Finally, entrusting responsibility for the new system to the United Nations would allow the international aid agencies to focus on their principal role of guiding the development process.

Invest in Security or Pay for War

My proposal presents some difficulties, though none so daunting as those surrounding conditionality. The first is how to measure the value of arms exports, especially in the case of a barter trade rather than a more easily measured financial transaction. But organizations such as SIPRI have been trying to collect data on the arms trade for years, and although the quality of the data is not perfect, it is good enough to make a start. The new United Nations Registry of Arms Trade could be used as another source of data.

A more important question is how such a proposal would be enforced. Why would UN member countries be willing to contribute to the fund when many are already in arrears in their regular contribution to the UN? Consider the alternatives. Small countries that do not participate cannot expect the international community to pay for their protection. Large countries are already paying the cost of global insecurity. The Gulf War alone cost the participating countries more than \$100 billion. Countries can either invest in security or pay whenever regional problems arise. Pretty clearly, regional conflicts will be part of the new world order over the next several decades. And nuclear proliferation makes this a particularly unsettling proposition.

Finding a New Equilibrium

As the international community struggles to adjust to the post-Cold War order, it finds itself stuck in a military equilibrium characterized by high military spending and low security. Currently, even the most promising policy options for solving the problems of the world trade in arms and of regional arms buildups do nothing to affect that equilibrium. The challenge is to find a new equilibrium in which military spending is low and security high. The system I am proposing does precisely that, sustaining both global and regional security through direct financial incentives, regional monitoring networks, and a credible security umbrella. ■

Beyond Self-Regulation

BY LEE H. HAMILTON



The American public has grown increasingly skeptical of groups and professions in our society that set their own pay and benefits, enforce their own rules, or judge their own members. Pressure from the public, the media, and academics has moved a number of professions, including doctors and lawyers, away from traditional systems of self-regulation. And Congress, too, has been responding to criticism that it, as an institution, is involved far too deeply in judging and regulating itself.

Should Congress decide on its own pay raises? Award itself perks? Sit in judgment on its own members? More and more, the answer to these questions, not only from the public, but from Congress, has been "no." For example, Congress generally does not judge complaints of improper election tactics made against a candidate for Congress. Instead, it turns such sensitive and politically charged matters over to the Federal Election Commission. And Congress has passed numerous laws over the years restricting the conduct of members (such as the use of office accounts, the receipt of gifts, and outside employment) and has given enforcement to the Justice Department and the courts.

The politically charged question of congressional pay has been handled by having an outside commission recommend what they feel should be the proper pay for members and by requiring pay increases to apply only to the next Congress, thus allowing the voters to have a say in the intervening election.

Several other changes have also been made recently. The decision of what to do about congressional perks has largely been turned over to an independent House administra-

tor. An office of Inspector General has been created for the House to watch out for wrongdoing. In both cases the goal is to ensure a more objective handling of a particular matter and to avoid putting members of Congress in situations rife with potential conflicts of interest.

Congress is now considering further steps away from self-regulation. One pending proposal would improve the way Congress complies with the laws it imposes on the public, such as employment discrimination or workplace standards. For example, House employees who feel they have been subjected to sexual harassment can only take their complaints to an office overseen by a congressional committee. The new legislation would set up an independent agency within the legislative branch to make sure Congress subjects itself to comparable rules and penalties for laws it writes for others. Those who feel their case has not been treated fairly could appeal to the courts.

Another proposal deals with the innate conflict of interest of having members judge the ethical misconduct of other members by involving outsiders in hearing ethics complaints. Panels of distinguished public citizens (including possibly former members of Congress or retired judges) would conduct the investigation, with final recommendations of guilt and punishment voted on by the full House or Senate. Still another proposal would require public audits of all legislative branch spending.

The advantages of opening Congress up to more outside regulation are obvious. First, it helps eliminate conflicts of interest, in which some members of Congress may want to protect a colleague—or may wish, for political reasons, to

see that colleague embarrassed. Second, it allows members to concentrate on legislative matters rather than spending all their time reviewing management of, say, the House bank. Third, it could help bolster public confidence in Congress. Fourth, it increases the openness and inclusiveness of congressional proceedings.

Certainly there are limits to such reforms. Legitimate concerns about the separation of powers mean that Congress cannot simply turn over various enforcement questions to the executive branch. The Framers of the Constitution were deeply concerned that an overzealous executive branch not be allowed to use its prerogatives to attack political opponents in Congress.

In addition, some proposals, while appealing in theory, could run into a host of practical difficulties. For example, an outside ethics panel may have difficulty finding former members of Congress who do not have strong ties to old friends in Congress or who are not engaged in lobbying Congress.

Moreover, reforms can sometimes go too far and create unintended problems of their own. The campaign finance reforms of the 1970s, intended to reduce the impact of special interest money on Congress, led to a proliferation of PACs.

Some members of the public are so deeply suspicious of Congress that they will regard the move away from self-regulation as nothing but a sham or a smokescreen. But my sense is that the trend is a healthy one—for Congress, as for doctors and lawyers—and likely to continue. Not only does it mean more openness in the spirit of good government, but also it reflects the confidence of Congress that it can withstand the scrutiny. ■

Lee H. Hamilton is a Democratic congressman from Indiana. He is co-chairman of the Joint Committee on the Organization of Congress, chairman of the House Foreign Affairs Committee, and a member and former chairman of the Joint Economic Committee.

Developing Confirmation Guidelines

BY ROBERT A. KATZMANN

More than a year ago, concerned about recent contentious confirmation battles over Supreme Court nominees, Senator Joseph Biden declared that "a new era must dawn." He offered two essentials for a smooth confirmation process. First, the president should genuinely consult with the Senate in searching for a nominee. And, second, he must offer a nominee who is philosophically acceptable to a substantial bipartisan majority of the Senate. Senator Biden's prescriptions largely followed, President Clinton nominated and, last August, the Senate approved Ruth Bader Ginsburg as our 107th Justice by a vote of 96-3.

From what we know, President Clinton undertook the most searching of inquiries, and, in the end, the White House produced a short list of highly qualified men and women (who may yet join the court). The chief executive consulted widely with senators from both parties. Indeed, Senator Biden credited Senator Daniel Patrick Moynihan with recommending Judge Ginsburg to him and to the president (and New York's senior senator has in turn acknowledged the pivotal role of my colleague Stephen Hess).

For all those hoping to avoid the bruising battles of the recent past, Judge Ginsburg must have seemed like manna from heaven. By dint of her experience as a pioneering litigator, scholar, and jurist, she was the very definition of what Americans could hope for in a Supreme Court nominee.

In the weeks before the hearings, Judge Ginsburg met with the senators on the Judiciary Committee (and more than a score of others), and as the steady request for information indicated, the committee diligently approached its task.

The hearings themselves can be considered part of an evolving effort of the senators and the nominee to determine the kinds of questions and answers they can appropriately expect of each other. That a consensus does not yet exist on this point reflects the fact that until the relatively recent hearings on Robert Bork, senatorial inquiry into a nominee's philosophy was mostly perfunctory.

As I have written in these pages, the uncertainty about proper questions and answers highlights a constitutional tension. The Constitution calls for a role for the president and the Senate in the appointment of judges. But the founders also sought to create a system in which the independence of the judiciary would be secured. With life tenure, judges were to be free to make unpopular decisions. The founders appreciated the danger of placing judges in positions that threatened their impartiality or forced them to prejudge issues. What all that means is that the confirmation process must be finely tuned to consider a variety of interests. The president, the Senate, and the public must have enough information about the nominee to make an informed evaluation. But the process must also protect the integrity of the judiciary.

In his remarks last year, Senator Biden put the hearings in their proper context. They "cannot alone provide a sufficient basis for determining if a nominee merits a seat on our Supreme Court." Further, "as they did before there were confirmation hearings, Senators—and the public—should make their determination about a nominee based on his or her record. . . . Thus, the hearings can be the crowning jewel of this evaluation process—a final chance to clear up confu-

sion or firm up a soft conclusion—but they cannot be the entire process itself."

Judge Ginsburg further advanced the discussion by setting forth her views as to the kinds of questions she could answer. She noted in her opening statement that her writings as a law teacher, lawyer, and judge were the most reliable indicator of her attitude, outlook, approach, and style.

Acknowledging the legitimacy of the Senate's efforts to question her, Judge Ginsburg observed that she would "act injudiciously" were she to "say or preview" how she would cast her vote on questions the Supreme Court may be called on to decide. "Judges in our system," she said, "are bound to decide concrete cases, not abstract issues; each case is based on particular facts and its decision should turn on those facts and the governing law, stated and explained in light of the particular arguments the parties or their representatives choose to present." In the hearings, Judge Ginsburg was more than willing, masterfully so, to explain how she approaches problems and makes decisions. Nor did she hesitate to respond to queries about her writings.

By the hearings' end, it was clear that the Judiciary Committee would continue in the years ahead to press on with the effort to determine the proper boundaries of questions and answers. The grand gift of the Ginsburg confirmation process was that it restored comity. In that spirit, the time may be ripe for the committee to convene a study group, perhaps including former participants and students of the process, to reflect on the lessons learned from the Ginsburg experience, and in so doing fashion a benchmark that would guide future exchanges. ■



Robert A. Katzmann, visiting fellow in the Brookings Governmental Studies program, is Walsh Professor at Georgetown University and president of the Governance Institute. He served as special counsel to Senator Moynihan on the confirmation of Judge Ginsburg.

The Debate over NAFTA

BY BARRY P. BOSWORTH



As Congress prepares to vote on the North American Free Trade Agreement, debate is being seriously distorted by a failure to understand the economic implications of the proposed agreement. The effects of NAFTA on trade flows and jobs are being grossly exaggerated, while the broader economic benefits to the United States of rapid economic growth in Mexico are being largely ignored.

The truth is that trade liberalization seldom has a significant overall effect on jobs. Export industries gain jobs, and industries faced with increasing imports lose them, but the total number remains about the same. Charges that NAFTA will result in large-scale destruction of U.S. jobs are basically absurd, but the administration is not helping to clear up the confusion when it claims NAFTA will mean a large net increase of jobs in the United States.

Tariffs on goods coming into the United States and Canada are not high: they average only about 5 percent of the price of imported goods. (Mexican tariffs are about twice that—10 percent.) Reducing those trade barriers will have only a small effect on where U.S. industries locate production facilities. In particular, it will not send them scurrying to Mexico. To be sure, wage rates in Mexico are less than a fifth of those in the United States, but, to put it bluntly, you get what you pay for. Low Mexican wages reflect the far lower level of productivity of Mexican workers, who lack the education, the public infrastructure, and capital equipment taken for granted in the United States. Firms that rely on cheap labor have long been free to leave the United States—moving either to the maquiladora area of northern Mexico or to numerous other low-wage countries.

What will occur is a reallocation of jobs. Low-skilled imports from Mexico will rise, roughly to match the increase in high-skilled U.S. exports. The number of U.S. jobs will stay about the same, but the mix of jobs will shift toward higher-wage occupations. The shift, which has been going on for decades, is good for American workers who need an expanded market for their high-skilled products. At least it is good for them as long as we continue to upgrade the educational skills of U.S. workers so they can qualify for the higher-skill higher-wage jobs that will come increasingly to dominate job opportunities here.

Far more significant than the largely rhetorical arguments, pro and con, about jobs is NAFTA's potential for creating an economic environment in Mexico that can lead to rapid economic growth. For an expanding, prosperous Mexico is good for the United States.

What Mexico's economy most needs is increased investment. For decades investors shied away from Mexico because of its history of restrictive trade practices, expropriation of private firms, and undisciplined fiscal-monetary policies. But since the early 1980s Mexico has undergone a remarkable transformation: sharply reducing trade restrictions, opening to the global economy, and encouraging private enterprise. NAFTA, itself a symbol of that transformation, will further increase international investors' confidence in Mexico's political and economic stability. And as Mexico attracts more capital, it will be able to buy the machinery and equipment it needs to grow more rapidly and raise the incomes of its workers.

That's where the United States comes in. As the source of the overwhelming share of Mexico's imports, the United States stands to reap large gains

from Mexican growth. With Mexico growing and increasing its imports, the United States can look forward to a trade surplus with Mexico for the foreseeable future. U.S. merchandise exports to Mexico have already grown 65 percent in the past three years. And the U.S. trade surplus with Mexico was \$5 billion in 1992, as compared with annual deficits in excess of \$5 billion during the mid-1980s when the Mexican economy was in recession.

In addition, a prosperous and growing Mexican economy will enable Mexico to cooperate with the United States in addressing such issues as environmental degradation, illegal drug traffic, and illegal immigration. Pollution of the environment, for example, is a rich man's concern. It means little to people struggling for survival. Just as in our country, efforts to protect the environment will rise in step with gains in standards of living.

Unfortunately, NAFTA has become a lightning rod for all dissatisfactions with the poor performance of the U.S. economy: stagnant wages, reduced job security, and a sharp widening of the wage gap between those with and without advanced job skills. But these problems have little to do with international trade in general and still less to do with trade with Mexico.

The best way to improve U.S. economic performance is by raising workers' skills and shifting employment to higher-productivity jobs. Our failure to do that lies not with Mexican imports, but with low rates of public and private investment here in the United States, inadequacies of our own educational system, and the lack of adequate job training programs for those who choose not to go on for a college education. We will not solve these problems by keeping Mexico in poverty. ■

Barry P. Bosworth is a senior fellow in the Brookings Economics Studies program. He is the author, most recently, of *Saving and Investment in a Global Economy* (Brookings, 1993).

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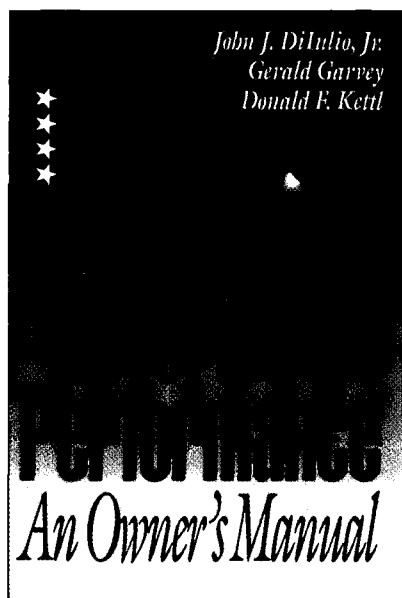
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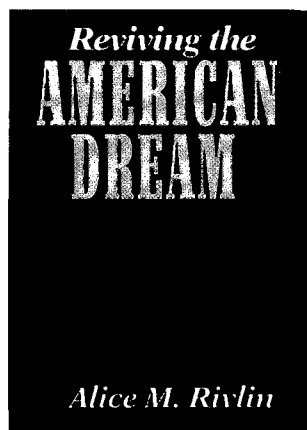
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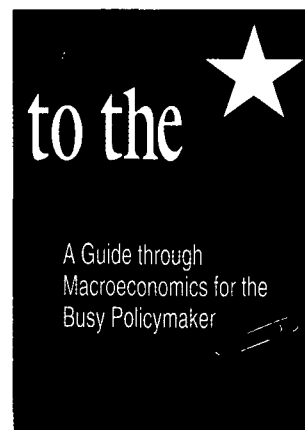
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